ANNUAL REPORT
2018

Equity Bancshares, Inc.

EVERY PIECE COUNTS

2018

Cordell

Guymon Main

Guymon & Cordell, Oklahoma

Equity acquired City Bank & Trust Company of Guymon, Oklahoma, in August 2018. Equity added two additional Guymon bank offices and a location in Cordell, Oklahoma from MidFirst Bank in early 2019, announcing the acquisition in September 2018.

Liberal & Hugoton, Kansas

Equity entered Southwest Kansas in May, completing its merger with Kansas Bank Corporation, adding four banks in Liberal, Kansas, and one location in Hugoton, Kansas.

Liberal

Entrepreneur of the Year

Equity Chairman and CEO Brad Elliott was named as one of EY's Entrepreneur of the Year National Finalists, a select group of entrepreneurs representing EY's Midwest region. Elliott was honored at a gala in June, and attended the national finals for EY's Entrepreneur of the Year in November.

2003

Equity purchases National Bank of Andover in Andover, Kansas.

2005

Equity expands into Wichita, acquiring two bank locations from Hillcrest Bank.

2007

Equity merges with Signature Bancshares, Inc. in Spring Hill, Kansas.

2008

Equity expands to Hays and Ellis, KS, acquiring Ellis State Bank; opens full-service bank in Lee's Summit, Mo.

2009

Equity opens two Overland Park locations, completes $20 million capital raise.

2011

Equity acquires four bank locations in Topeka, Kansas from Citizens Bank & Trust.

Online Banking

Equity Bank launched the all-new, all-improved online banking platform for consumers, businesses, and mobile users in January 2019, undergoing an online facelift that began in early 2018. More than 40,000 customers use Equity Bank's online or mobile banking each day.

Blue Springs, Missouri

Equity adds seventh location in metropolitan Kansas City, completing its merger with Adams Dairy Bancshares, Inc. of Blue Springs, Missouri in May.

Bank Network Enhancement

In 2018, Equity began improvements to bank locations in Wichita and Andover, Kansas, repurposing facilities to enhance the environment for its growing team, appeal to customers, reduce occupancy expense and upgrade the data storage and security center at its Kellogg and Rock Road location in Wichita.

2018 Annual Report

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2012
Equity acquires First Community Bancshares, Inc. with 15 locations in Kansas & Missouri.

2014
Equity completes repayment of acquired TARP funds, repurchases 1.3 million shares, opens new Wichita bank office.

2015
Equity enters Southeast Kansas, merges with First Independence Corporation. Equity completes IPO in November.

2016
Equity merges with Community First Bancshares, Inc. of Harrison, AR. Equity completes $35.4 million private placement.

2017
Equity completes mergers with State Bank in Hoxie, Kansas; Eastman National Bank of Ponca City, OK, and Patriot Bank of Tulsa, OK.

To my fellow Shareholders,

The central theme of our annual All-Employee Day on January 21, 2019, was "Every Piece Counts." When I look back at our successful 2018 — featuring milestones throughout our footprint, throughout our product and service offerings, and throughout our sales, service, and operational teams —truly, every piece made a difference to our customers, communities and colleagues, in our most profitable year for the Company. We thank all of you for your support.

Our strategy as a community bank is twofold. First, to add solid and strong banks to our franchise in proximity to our footprint. We consider merger partners based on cultural fit first, and enhancement for our customers. In 2018, we completed combinations with First National Bank of Liberal and Hugoton, Kansas and Adams Dairy Bank of Blue Springs, Missouri in May. In August we added City Bank and Trust Company of Guymon, Oklahoma to our footprint. We announced Equity Bank's acquisition of two additional branches in Guymon and one in Cordell, Oklahoma in September, and completed that transaction in February of 2019.

$4.1B

ASSETS (12/31/2018)

52

BANK LOCATIONS

696

EMPLOYEES

Each of these combinations featured an addition of convenience to our Western Kansas, Kansas City, and Oklahoma franchises. New team members led by Tina Call in Liberal, Amada Alvidrez in Guymon, and additional talent in Blue Springs have helped us continue to deliver services and products above and beyond customer expectation — as well as results to our shareholders.

Brad Elliott, Chairman & CEO
Equity Bancshares, Inc.

Mergers are a core competency of ours, and we strive to complete each within approximately three months. I'm proud of each member of our merger teams, led by Julie Huber, John Blakeney, Jennifer Johnson, Patrick Salmans and Patrick Harbert, and their ability to work together to continue to empower new employees within our Company.

The second element of our strategy is organic growth: Delivering customized, sophisticated banking solutions to customers in a diverse range of markets. In 2018, our retail and commercial teams did an excellent job growing core deposits — with 8 percent organic deposit growth throughout our regions. Deposits are the lifeblood of our business as a community bank, and our sales teams, led by Wendell Bontrager and Craig Anderson, have worked efficiently and intelligently to ensure Equity Bank is a great choice for businesses and consumers. Our retail sales teams focus on *One More a Day:* one more checking account, one more service, one more conversation with customers, every day.

Our experienced and seasoned lenders in metropolitan and community markets have provided an engine for growth while continuing to adhere to our credit standards. Craig and Wendell continue to work with talented bankers throughout our footprint to control risk and fulfill our pipeline. Our loan portfolio grew organically by 6 percent from 2017, including an average of 17 percent in our metro markets.

I consider the element of customer experience crucial to our strategy, and we made important improvements. We enhanced online and mobile banking for our entire customer base, relaunching our online banking product for consumers and business customers. This is an undertaking on par

“More than anything, it’s the entrepreneurial mindset that has allowed us to successfully welcome talented, driven bankers...”

with a bank combination — more than 40,000 households access online banking each day, often multiple times, from multiple devices.

We believe our online platform is now on par with the best in banking. Our customer engagement team of Julie Huber, John Blakeney, Jennifer Johnson and John Hanley led our operations, marketing, systems, and customer testing groups through a rigorous process testing the platform and communicating to our customers.

In 2019 we intend to continue to recruit top talent, expand our product offerings, and expand our services to our business clientele. Recently, we announced the launch of Equity Trust and Wealth Management, our full service trust division. Gaylyn McGregor has joined our team in Wichita, to lead and grow our trust platform with the help of our current associates, including those from the former City National Bank and Trust Company. We’re eager to improve financial planning, private banking, and enhanced trust services for our customers — it’s another piece that customers count on.

In my opinion, talent, drive and focus are what propel Equity Bank to our success, and what bodes well for our continued growth. Our 700-plus team members embody the company’s core values: *Integrity*, *Community Focus*, *Accountability*, *Respect* and *Entrepreneurial Spirit*. More than anything, it's the entrepreneurial mindset that has allowed us to successfully welcome talented, driven bankers from commnity banks joining our team. It’s allowed us to manage a merger pipeline, customer experience projects, and customer growth simultaneously. It’s allowed us to continue to remember: Every piece counts. Every piece is big. Every piece makes a difference. As I look forward to a robust 2019, it’s our Equity team spirit that will help us continue to deliver results.

$2.6B

LOANS (12/31/2018)

$3.1B

DEPOSITS (12/31/2018)

Sincerely,

Brad S. Elliott
Chairman & Chief Executive Officer
Equity Bancshares, Inc.

Special Note Concerning Forward-Looking Statements

Certain statements contained herein may be considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements are based upon the belief of Equity Bancshares, Inc. (“the Company”) management, as well as assumptions made beyond information currently available to the Company's management, and may be, but not necessarily are, identified by such words as “will,” "expect,” "plan,” "anticipate,” "target,” "forecast" and "goal.” Because such "forward-looking statements" are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from the Company's expectations include competition from other financial institutions and bank holding companies; the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes in the demand for loans; fluctuations in value of collateral and loan reserves; inflation, interest rate, market and monetary fluctuations; changes in consumer spending, borrowing and savings habits; and acquisitions and integration of acquired businesses, and similar variables. The foregoing list of factors is not exhaustive. Except as otherwise stated in this annual report, the Company does not undertake any obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise.

For discussion of these and other risks that may cause actual results to differ from expectations, please refer to "Cautionary Note Regarding Forward-looking Statements" and "Risk Factors" in our most recent Form 10-K, or other SEC filings. If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained herein. Accordingly, you should not place undue reliance on any forward-looking statements, which speak only as of the date made. The Company assumes no obligation to update or revise any forward-looking statements that are made from time to time.

Selected Financial Highlights (unaudited)

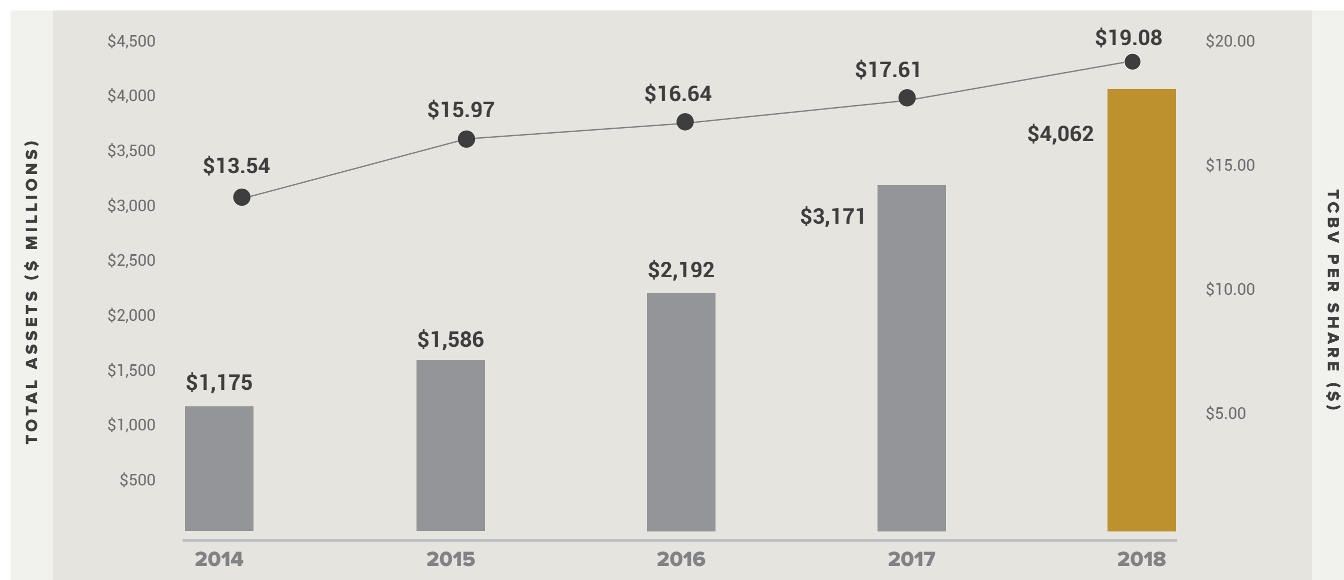
(Dollars in thousands, except per share data)
See also: "Selected Financial Data," in our Annual Report on Form 10-K.

	Years Ended December 31				
	2018	2017	2016	2015	2014
Statement of Income Data					
Interest and dividend income	$ 161,556	$ 102,693	$ 61,799	$ 53,028	$ 46,794
Interest expense	36,758	16,691	9,202	6,766	5,433
Net interest income	124,798	86,002	52,597	46,262	41,361
Provision for loan losses	3,961	2,953	2,119	3,047	1,200
Non-interest income**	19,734	15,169	9,987	8,364	7,688
Merger expense	7,462	5,352	5,294	1,691	-
Other non-interest expense	86,925	62,111	41,723	36,568	35,645
Income before income taxes	46,175	31,026	13,869	14,442	13,190
Provision for income taxes	10,350	10,377	4,495	4,142	4,203
Net income	35,825	20,649	9,374	10,300	8,987
Dividends and discount accretion on preferred Stock	-	-	(1)	(177)	(708)
Net income allocable to common stockholders	35,825	20,649	9,373	10,123	8,279
Basic earnings per share	2.33	1.66	1.09	1.55	1.31
Diluted earnings per share	2.28	1.62	1.07	1.54	1.30
Balance Sheet Data (at period end)					
Cash and cash equivalents	$ 192,818	$ 52,195	$ 35,095	$ 56,829	$ 31,707
Securities available-for-sale	168,875	162,272	95,732	130,810	52,985
Securities held-to-maturity	748,356	535,462	465,709	310,539	261,017
Loans held for sale	2,972	2,353	4,830	3,504	897
Gross loans held for investment	2,575,408	2,117,270	1,383,605	960,355	725,876
Allowance for loan losses	11,454	8,498	6,432	5,506	5,963
Loans held for investment, net of allowance for loan losses	2,563,954	2,108,772	1,377,173	954,849	719,913
Goodwill and core deposit intangibles, net	153,437	115,645	63,589	19,679	19,237
Total assets	4,061,716	3,170,509	2,192,192	1,585,727	1,174,515
Total deposits	3,123,447	2,382,013	1,630,451	1,215,914	981,177
Borrowings	464,676	401,652	293,909	194,064	70,370
Total liabilities	3,605,775	2,796,365	1,934,228	1,418,494	1,056,786
Total stockholders' equity	455,941	374,144	257,964	167,233	117,729
Tangible common equity*	301,276	257,222	194,352	131,153	82,133
Performance Ratios					
Return on average assets (ROAA)	1.00%	0.84%	0.55%	0.75%	0.78%
Return on average equity (ROAE)	8.52%	7.03%	5.55%	8.19%	7.30%
Return on average tangible common equity (ROATCE)*	13.43%	9.81%	6.75%	9.66%	9.99%
Yield on loans	5.74%	5.43%	4.98%	5.31%	5.63%
Cost of interest-bearing deposits	1.15%	0.79%	0.65%	0.55%	0.49%
Net interest margin	3.81%	3.83%	3.30%	3.65%	3.92%
Efficiency ratio*	60.14%	61.39%	66.67%	66.94%	72.67%
Non-interest income/average assets	0.55%	0.63%	0.61%	0.71%	0.75%
Non-interest expense/average assets	2.62%	2.74%	2.74%	2.81%	3.08%
Capital Ratios					
Tier 1 Leverage Ratio	8.60%	10.33%	11.81%	9.47%	9.62%
Common Equity Tier 1 Captial Ratio	11.02%	11.56%	13.34%	12.35%	N/A
Tier 1 Risk Based Capital Ratio	11.52%	12.17%	14.25%	13.85%	13.16%
Total Risk Based Capital Ratio	11.92%	12.54%	14.67%	14.35%	13.86%
Equity/Assets	11.23%	11.80%	11.77%	10.55%	10.02%
Book value per share	$ 28.87	$ 25.62	$ 22.09	$ 18.37	$ 16.71
Tangible book value per share*	$ 19.08	$ 17.61	$ 16.64	$ 15.97	$ 13.54
Tangible common equity to tangible assets*	7.71%	8.42%	9.13%	8.37%	7.11%

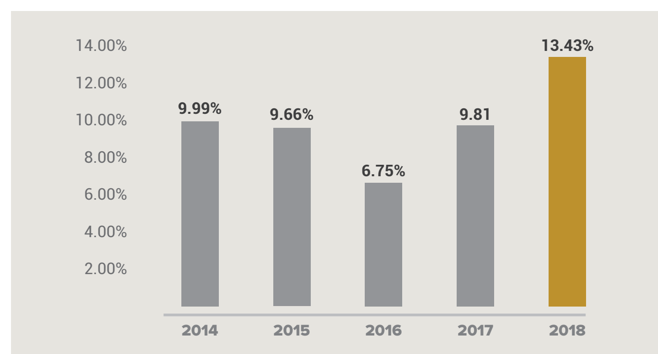
*Indicates non-GAAP financial measure. Please see “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures” for reconciliation to the most directly comparable GAAP measure.

**Does not include gains on sales and settlement of securities or bargain purchase gains associated with acquisitions.

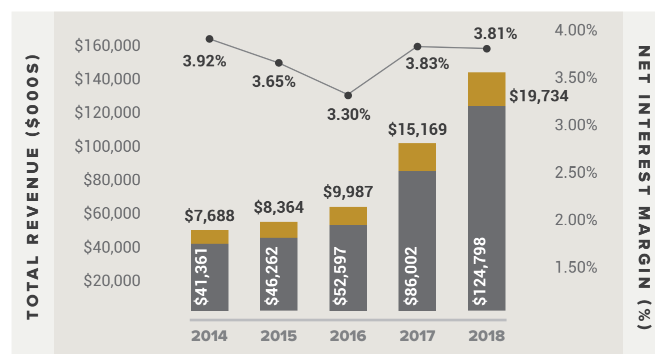
Tangible Common Book Value* And Total Assets



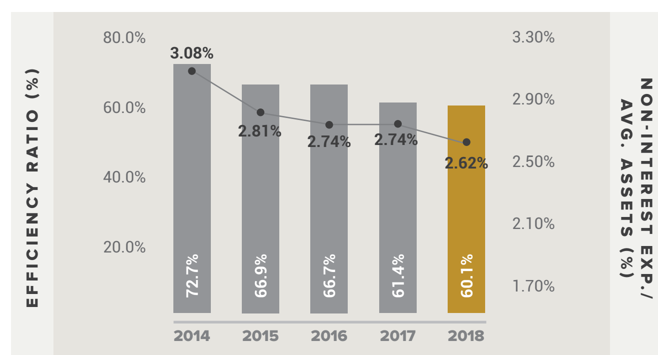
Return on Average Tangible Common Equity*



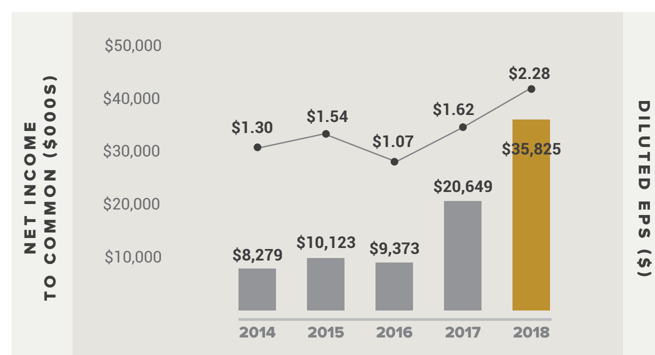
Revenue** And Net Interest Margin



Efficiency Ratio*, ** And NIE/Average Assets



Diluted EPS And Net Income



*Indicates non-GAAP financial measure. Please see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures" for reconciliation to the most directly comparable GAAP measure.

**Does not include gains on sales and settlement of securities or bargain purchase gains associated with acquisitions.

Members of the Equity Bancshares and Equity Bank Board of Directors. Back row, left to right: Jim Berglund, Greg Gaeddert, Wendell Bontrager, Shawn Penner, Brad Elliott, Roger Buller, Jeff Bloomer, Jerry Maland, Craig Anderson. Front row, left to right: John Eck, Dan Bowers, Randee Koger, Greg Kossover, Gary Allerheiligen, Harvey Sorensen

Senior Leadership

Brad S. Elliott
Chairman & Chief Executive Officer

Gregory H. Kossover
Chief Financial Officer

Wendell L. Bontrager
President, Equity Bank

Craig L. Anderson
Chief Operating Officer

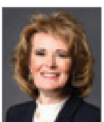
Julie A. Huber
EVP, Strategic Initiatives

Craig P. Mayo
Chief Credit Officer

John M. Blakeney
Chief Information Officer

Rolando Mayans
Chief Risk Officer

Brett A. Reber
General Counsel



Gaylyn K. McGregor
Director of Trust & Wealth Management

Patrick L. Salmans
SVP, Human Resources Director

Patrick J. Harbert
Community Markets President

Jennifer A. Johnson
Chief Services Officer

John J. Hanley
SVP, Senior Marketing Director

Mark C. Parman
President, Kansas City

Michael E. Bezanson
Tulsa CEO

Timothy A. Kerr
SVP, Community Markets Manager

Board of Directors

Members of the Equity Bancshares, Inc. Board of Directors and the Equity Bank Board of Directors are listed below.

Brad S. Elliott
Chairman & CEO
Equity Bancshares, Inc.; Equity Bank

Gary C. Allerheiligen
CPA/Consultant
Equity Bancshares, Inc.; Equity Bank

James L. Berglund
Retired President & CEO, Sunflower Bank
Equity Bancshares, Inc.; Equity Bank

Jeff A. Bloomer
President & COO, Sunrise Oilfield Supply
Equity Bancshares, Inc.; Equity Bank

Gregory L. Gaeddert
Managing Partner, B12 Capital Partners, LLC
Equity Bancshares, Inc.; Equity Bank

Randee R. Koger
Attorney & Partner, Wise & Reber L.C.
Equity Bancshares, Inc.; Equity Bank

Gregory H. Kossover
Chief Financial Officer
Equity Bancshares, Inc.; Equity Bank

Jerry P. Maland
Retired Chairman & CEO, Community First Bancshares, Inc.
Equity Bancshares, Inc.; Equity Bank

Shawn D. Penner
Owner, Shamrock Development, LLC
Equity Bancshares, Inc.; Equity Bank

Harvey R. Sorensen
Attorney & Partner, Foulston Siefkin LLP
Equity Bancshares, Inc.; Equity Bank

Craig L. Anderson
Chief Operating Officer
Equity Bank

Wendell L. Bontrager
President
Equity Bank

Dan R. Bowers
Attorney
Equity Bank

Roger A. Buller
SVP & Regional Manager, Benjamin F. Edwards & Co.
Equity Bank

P. John Eck
Owner, AGV Corp., Eck Agency, Inc.
Equity Bank

Market Leadership

Wichita

David A. King	Senior Lending Officer • Wichita
Shawna K. Palmieri	SVP, Director of Treasury Management • Wichita
Andrew L. Chaney	VP, Commercial Banking • Wichita
Chris A. Riedel	VP, Retail Sales Manager • Wichita
David R. Schaefer	VP, Commercial Loan Officer • Wichita
Randy R. Summers	VP, Commercial Loan Officer • Wichita

Ozark Mountain

David C. Morton	Ozark Mountain CEO • Harrison
Elizabeth S. Kelley	President • Eureka Springs
Wade S. Robson	President • Pea Ridge
Deretha K. Walker	President • Berryville
Rick C. Daniel	Commercial Loan Officer • Pea Ridge
Jay B. Ertel	Commercial Loan Officer • Eureka Springs
Rita M. Herrmann	SVP, Credit Analyst • Harrison
Burnetta K. Bauer	Mortgage Loan Officer • Harrison
Janet D. David	Bank Manager • Pea Ridge
Connie K. Featherstone	Commercial Loan Officer • Eureka Springs
James A. Huffman	Commercial Loan Officer • Eureka Springs
Amanda L. Lowry	Retail Sales Manager • Harrison
Harry H. "Mel" Melhorn	Mortgage Loan Officer • Harrison
Karlea B. Newberry	Bank Manager • Harrison
Carla K. Riley	Teller Supervisor • Harrison
Shannon M. Snow	VP, Information Technology • Harrison
Dustin A. Walker	Commercial Loan Officer • Berryville

Bruce W. Wiley
Regional President,
Ozark Mountain

Southwest

Amada G. Alvidrez	Market President • Guymon
Scarlette N. Diseker	Bank Manager • Liberal
Jana K. Jantzen	Customer Service Manager • Liberal
Tammy J. Slocum	Bank Manager • Hugoton
Michael J. Brond	Commercial Loan Officer • Liberal
Larry A. Dalvine	Commercial Loan Officer • Guymon
Lanny D. Drummond	Commercial Loan Officer • Liberal
Charles C. Field	Commercial Loan Officer • Liberal
Rene R. Higgins	Loan Assistant • Liberal
Adria L. Kaiser	Loan Officer • Hugoton
Jimmy D. LeGrange	Commercial Loan Officer • Guymon
Charles D. Payne	Personal Banker • Liberal
Tomas Reynaga-Luna	Commercial Loan Officer • Liberal

Tina M. Call
Regional President,
Southwest

Tulsa

Ryan K. Schrieber	Commercial Loan Officer • Tulsa
Kimberly D. Edwards	Bank Manager • Tulsa
Robert T. Potts	Treasury Management Officer • Tulsa

Western Missouri

Cheryl A. Barnson	President • Sedalia
Mark L. Davis	President • Clinton
W. Sue Hook	President • Warrensburg
Rhonda R. Scott	President • Windsor
Mark L. Smith	President • Warsaw
Terry L. Thompson	President • Higginsville
Gregory N. Hall	Commercial Loan Officer • Warrensburg
Sandra J. Rice	Financial Advisor • Sedalia
Jill K. Warren	Registered Sales Assistant • Higginsville

Joshua J. Means
Regional President,
Western Missouri

Topeka

Jason L. Pickerell	President • Topeka
Sara E. Lies	Commercial Loan Officer • Topeka
Janet A Thayer	Bank Manager • Topeka

Southeast Kansas

Jim L. Clubine	Commercial Loan Officer • Independence
Lori L. Kelley	Treasury Management Officer • Independence

David A. Wright
Regional President,
Southeast Kansas

Kansas City

Peter W. Shriver	SVP, Senior Lending Officer • Overland Park
J. Chris Ryan	SVP, Commercial Loan Officer • Lee's Summit
Michael H. Doyle	VP, Commercial Loan Officer • Overland Park
Alex L. Goodpaster	VP, Commercial Loan Officer • Overland Park
Larry W. Hillier	VP, Commercial Loan Officer • Lee's Summit
Sharon R. Holmes	VP, Retail Sales Manager • Lee's Summit
Sherri L. Howard	VP, Treasury Management Officer • Lee's Summit
Mark S. Janczewski	VP, Director of Government Banking • Lee's Summit
Justin N. Kelly	VP, Commercial Loan Officer • Overland Park
Robert H. Markey	VP, Commercial Loan Officer • Blue Springs
Brady M. Rodgers	VP, Commercial Loan Officer • Overland Park
Ronan J. Sramek	VP, Mortgage Manager • Overland Park
Mark W. Steinman	VP, Commercial Loan Officer • Overland Park

Northern Oklahoma

Darin A. Kirchenbauer	SVP, Commercial Loan Officer • Ponca City
Erin M. Liberton	SVP, Retail Sales Manager • Ponca City
Gary W. Scott	SVP, Commercial Loan Officer • Newkirk
Mary M. Austin	Bank Manager • Newkirk

Mark T. Detten
Regional President,
Northern Oklahoma

Quality Care

Jeremiah B. Allen	SVP, Loan Operations Director • Wichita
Monique C. Kittle	SVP, Director of Enterprise Risk • Wichita
Chris M. Navratil	SVP, Finance • Wichita
Barbara M. Noyes	SVP, Controller • Wichita
Robert E. Quaney	SVP, Finance • Wichita
Beverly D. Axmann	Internal Financial Reporting Manager • Wichita
Evette P. Beckman	Deposit Operations Manager • Wichita
Bradley D. Bischoff	Compliance Officer • Wichita
J. Matthew Brewer	Corporate Training Manager • Wichita
James R. Brunsell	IT Director • Wichita
Kristi M. Bueno	Lending Compliance & Operational Risk • Wichita
Stephen L. Fisher	Senior Accountant • Wichita
Kenneth W. Furgason	External Financial Reporting Manager • Wichita
Brent V. Koehn	Loan Review Officer • Wichita
Julie K. Magee	Treasury Management • Wichita
Mandi R. Martinson	Talent Development Specialist • Wichita
Barbara K. Mize	Senior Credit Manager • Wichita
Jesse A. Nienke	Systems Operations Manager • Wichita
June K. Pressnell	Senior Credit Officer • Wichita
Mark W. Taylor	Human Resources Manager • Wichita

Western Kansas

Dale F. Gottschalk	President • Hays
Michael C. Mense	President • Hoxie
Allen Weber	President • Ellis
Cheri L. Mense	Retail Sales Manager • Hoxie
Steven L. Schoendaler	Commercial Loan Officer • Grinnell
Jeff T. Torluemke	Commercial Loan Officer • Hoxie
Randy K. Farber	Commercial Loan Officer • Hoxie
Harold W. Sulzman	Commercial Loan Officer • Hoxie

Levi D. Getz
Regional President,
Western Kansas

Equity Spirit

On January 21, 2019, Equity Bank team members joined together in Overland Park, Kansas, for our annual All-Employee Day. Team members new and seasoned learned leadership tactics from Dan Meers, the Kansas City Chiefs' "KC Wolf." More than 50 Equity Bank team members earned performance awards amid applause from peers.

CEO Brad Elliott reviewed past accomplishments and the Company's future. Annually, we recognize the graduates of our Equity University program, with the following class earning its place as future leaders of the Company: Chris Wassel, Terry Thompson, Mark Taylor, Mark Steinman, Sara Lies, Erin Liberton, Levi Getz, Jay Ertel, Kirby Coale, Evette Beckman, and Beverly Axmann.

Dan Meers

Equity University

Brad Elliott

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-37624

EQUITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Kansas	**72-1532188**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7701 East Kellogg Drive, Suite 300 Wichita, KS	**67207**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 316.612.6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Class A Common Stock, par value $0.01 per share	**NASDAQ Stock Market LLC**

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates was $621.3 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares outstanding as of March 12, 2019
Class A Common Stock, par value $0.01 per share	15,803,587
Class B Non-Voting Common Stock, par value $0.01 per share	0

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement relating to the 2019 Annual Meeting of Stockholders, which will be filed within 120 days after December 31, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Notice about Information in this Annual Report on Form 10-K

Unless we state otherwise or the context otherwise requires, references in this Annual Report on Form 10-K to "we," "our," "us," "the Company" and "Equity" refer to Equity Bancshares, Inc. and its consolidated subsidiaries, including Equity Bank, which we sometimes refer to as "Equity Bank," "the Bank" or "our Bank."

The information contained in this Annual Report on Form 10-K is accurate only as of the date of this annual report and as of the dates specified herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")." These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "project," "forecast," "goal," "target," "would" and "outlook," or the negative variations of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described in "Item 1A – Risk Factors" of this Annual Report on Form 10-K.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- an economic downturn, especially one affecting our core market areas;
- the occurrence of various events that negatively impact the real estate market, since a significant portion of our loan portfolio is secured by real estate;
- difficult or unfavorable conditions in the market for financial products and services generally;
- interest rate fluctuations which could have an adverse effect on our profitability;
- external economic and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System, or the Federal Reserve, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits which may have an adverse impact on our financial condition;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- costs arising from the environmental risks associated with making loans secured by real estate;
- losses resulting from a decline in the credit quality of the assets that we hold;
- the adoption of ASU 2016-13, *Financial Instruments – Credit Losses*, and its impact on our allowance for loan losses and capital;
- the effects of new federal tax laws, or changes to existing federal tax laws;
- inadequacies in our allowance for loan losses which could require us to take a charge to earnings and thereby adversely affect our financial condition;
- differences in our qualitative factors used in our calculation of the allowance for loan losses from actual results;
- inaccuracies or changes in the appraised value of real estate securing the loans we originate that could lead to losses if the real estate collateral is later foreclosed upon and sold at a price lower than the appraised value;
- the costs of integrating the businesses we acquire which may be greater than expected;

- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- a lack of liquidity resulting from decreased loan repayment rates, lower deposit balances, or other factors;
- restraints on the ability of Equity Bank to pay dividends to us which could limit our liquidity;
- the loss of our largest loan and depositor relationships;
- limitations on our ability to lend and to mitigate the risks associated with our lending activities as a result of our size and capital position;
- additional regulatory requirements and restrictions on our business which could impose additional costs on us;
- increased capital requirements imposed by banking regulators which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;
- inaccuracies in our assumptions about future events which could result in material differences between our financial projections and actual financial performance;
- the departure of key members of our management personnel or our inability to hire qualified management personnel;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems;
- unauthorized access to nonpublic personal information of our customers, which could expose us to litigation or reputational harm;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- required implementation of new accounting standards that significantly change certain of our existing recognition practices;
- the occurrence of adverse weather or manmade events which could negatively affect our core markets or disrupt our operations;
- an increase in FDIC deposit insurance assessments which could adversely affect our earnings;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies; and
- other factors that are discussed in “Item 1A – Risk Factors.”

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this Annual Report on Form 10-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date when it is made and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements, expressed or implied, included in this Annual Report on Form 10-K are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Part I

Item 1: Business

Our Company

We are a bank holding company headquartered in Wichita, Kansas. Our wholly-owned banking subsidiary, Equity Bank, provides a broad range of financial services primarily to businesses and business owners as well as individuals through our network of 49 full service branches located in Arkansas, Kansas, Missouri and Oklahoma, as of December 31, 2018. As of December 31, 2018, we had, on a consolidated basis, total assets of $4.06 billion, total deposits of $3.12 billion, total loans (net of allowances) of $2.56 billion and total stockholders' equity of $455.9 million.

Our principal objective is to increase stockholder value and generate consistent earnings growth by expanding our commercial banking franchise both organically and through strategic acquisitions. We strive to provide an enhanced banking experience for our customers by providing them with a comprehensive suite of sophisticated banking products and services tailored to meet their needs, while delivering the high-quality, relationship-based customer service of a community bank.

Our History and Growth

We were founded in November 2002 by our Chairman and CEO, Brad S. Elliott. Mr. Elliott believed that, as a result of in-market consolidation, there existed an opportunity to build an attractive commercial banking franchise and create long-term value for our stockholders. Following thirteen years' experience as a finance executive, including serving as a Regional President for a Kansas bank with over $1.0 billion in assets, Mr. Elliott implemented his banking vision of developing a strategic consolidator of community banks and a destination for seasoned bankers and business persons who share our entrepreneurial spirit. In 2003, we raised capital from 23 local investors to finance the acquisition of National Bank of Andover in Andover, Kansas. At the time of our acquisition, National Bank of Andover had $32 million in assets and was subject to a regulatory enforcement agreement with the Office of the Comptroller of the Currency ("OCC"). Subsequent to our acquisition of National Bank of Andover, we changed its name to Equity Bank and instilled in its commercial and retail staff our entrepreneurial spirit and disciplined credit culture. Within eight months of the acquisition, the enforcement action with the OCC was terminated.

We believe we have a successful track record of selectively acquiring, integrating and consolidating community banks and branch networks. Our acquisition activity includes the following transactions.

- ***June 2003*** – Acquired National Bank of Andover in Andover, Kansas for $3 million. At the time of our acquisition, National Bank of Andover had $32 million in total assets.
- ***February 2005*** – Acquired two branches of Hillcrest Bank, N.A. in Wichita, Kansas, which increased our deposits by $66 million. In conjunction with this acquisition, we relocated our headquarters to our current principal executive offices in Wichita.
- ***June 2006*** – Acquired the Mortgage Centre of Wichita and integrated it into our Bank as a department to expand our mortgage loan platform.
- ***October 2006*** – Acquired a Missouri charter from First National Bank in Sarcoxie, Missouri, which allowed us to subsequently open a full service branch in Lee's Summit, Missouri in 2007.
- ***November 2007*** – Acquired Signature Bancshares, Inc. in Spring Hill, Kansas, which provided us entry into the Overland Park, Kansas market.
- ***August 2008*** – Acquired Ellis State Bank with locations in Ellis and Hays, Kansas.
- ***December 2011*** – Acquired four branches of Citizens Bank and Trust in Topeka, Kansas, which increased our deposits by $110 million.
- ***October 2012*** – Acquired First Community Bancshares, Inc. in Overland Park, Kansas, which increased our deposits by approximately $515 million. At the time of acquisition, First Community had total assets of approximately $595 million, which significantly increased our total asset size and provided us with ten additional branches in Western Missouri and five additional branches in Kansas City.
- ***October 2015*** – Acquired First Independence Corporation of Independence, the registered savings and loan holding company for First Federal Savings & Loan of Independence, based in Independence, Kansas. First Independence operated four full service branches in Southeastern Kansas. At the time of acquisition, First Independence had consolidated total assets of $135.0 million, total deposits of $87.1 million and total loans of $89.9 million.

- ***November 2016*** – Acquired Community First Bancshares, Inc. in Harrison, Arkansas, which increased our deposits by $375.4 million. At the time of acquisition, Community First had total assets of $462.9 million and five locations in Arkansas.
- ***March 2017 –*** Acquired Prairie State Bancshares, Inc. ("Prairie") in Hoxie, Kansas, which increased our deposits by $125.4 million. At the time of acquisition, Prairie had total assets of $153.1 million and three locations in western Kansas.
- ***November 2017*** – Acquired Eastman National Bancshares, Inc. ("Eastman"), which had a total of four branches in Ponca City and Newkirk, Oklahoma. The acquisition increased our deposits by $224.1 million, our loans by $177.9 million and our total assets by $259.7 million. In addition, at the same time, we acquired Cache Holdings, Inc. ("Cache") in Tulsa, Oklahoma. Cache was the holding company for Patriot Bank and had one branch in Tulsa. The acquisition of Cache added $278.7 million in deposits, $300.7 million in loans and $324.6 in total assets.
- ***May 2018*** – Acquired Kansas Bank Corporation ("KBC"), which had a total of five branches in Liberal and Hugoton, Kansas. The acquisition increased our deposits by $288.4 million, our loans by $159.4 million and our total assets by $336.1 million. On the same day we acquired Adams Dairy Bancshares, Inc. ("Adams"), which had one branch located in Blue Springs, Missouri. The acquisition of Adams added $97.1 million in deposits, $82.7 million in loans and $119.8 million in total assets.
- ***August 2018*** – Acquired City Bank and Trust Company ("City Bank"), with one branch in Guymon, Oklahoma, from Docking Bancshares, Inc. This acquisition increased our deposits by $126.9 million, our loans by $77.1 million and our total assets by $163.3 million.

In conjunction with our strategic acquisition growth, we strive to reposition and improve the loan portfolio and deposit mix of the banks we acquire. Following our acquisitions, we focus on identifying and disposing of problematic loans and replacing them with higher quality loans generated organically. In addition, we have focused on growth in our commercial loan portfolio, which we believe generally offers higher return opportunities than our consumer loan portfolio, primarily by hiring additional talented bankers, particularly in our metropolitan markets, and incentivizing our bankers to expand their commercial banking relationships. We also seek to increase our most attractive deposit accounts, primarily by growing deposits in our community markets and cross-selling our depository products to our loan customers.

As a result of these strategic and organic growth efforts, since our inception through December 31, 2018, we have expanded our team of full-time equivalent employees from 19 to 627, and our network of branches from two to 49. We believe that we are well positioned to continue to be a strategic consolidator of community banks, while maintaining our history of attracting experienced and entrepreneurial bankers and organically growing our loans and deposits.

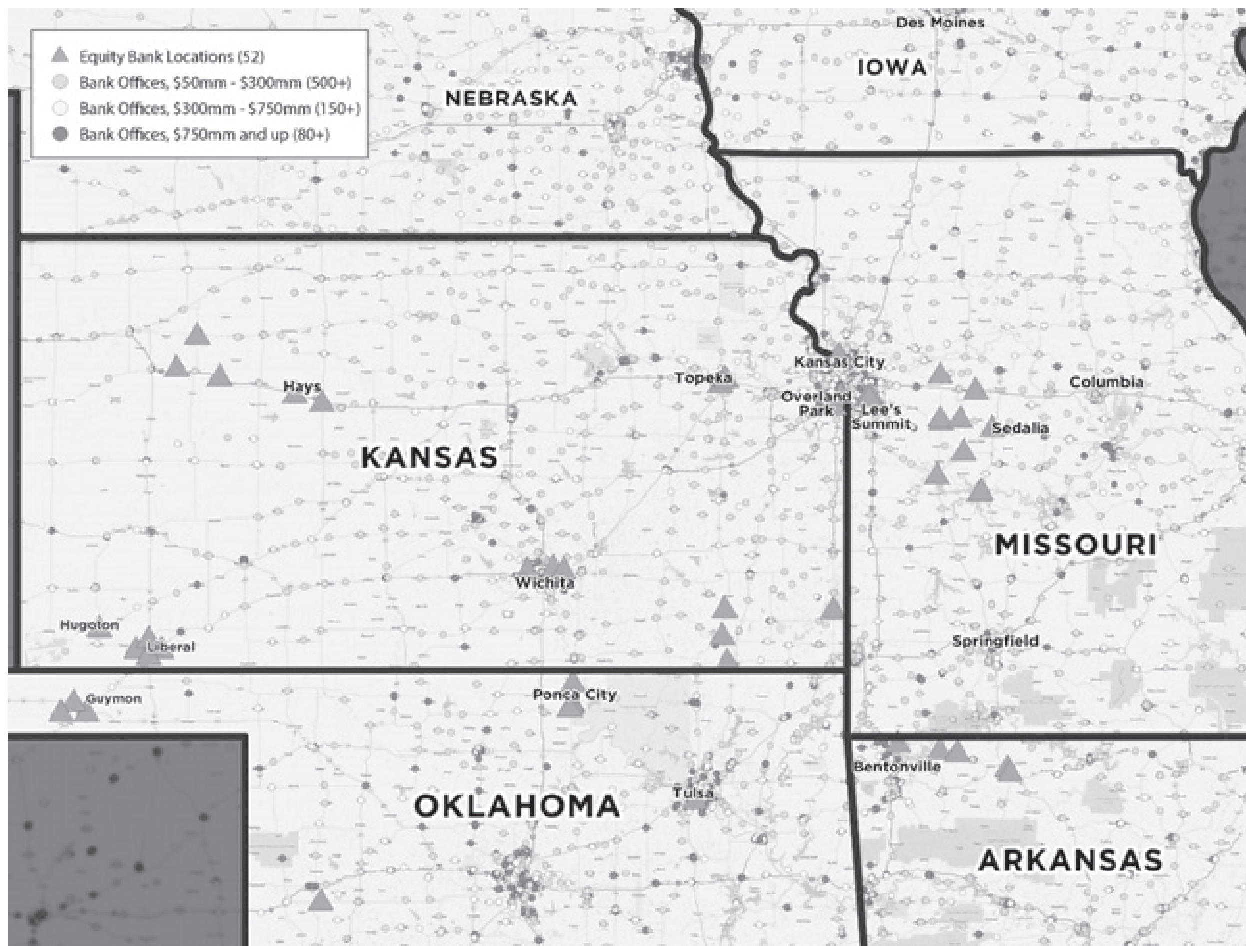
Our Initial Public Offering

We completed the underwritten initial public offering ("IPO") of our common stock on November 16, 2015, where we sold an aggregate of 2,231,000 shares of our common stock at a price to the public of $22.50 per share. Our common stock began trading on the NASDAQ Global Select Market on November 11, 2015 under the ticker symbol "EQBK."

Our Strategies

We believe we are a leading provider of commercial and personal banking services to businesses and business owners as well as individuals in our targeted Midwestern markets. Our strategy is to continue strategically consolidating community banks within such markets and maintaining our organic growth, while preserving our asset quality through disciplined lending practices.

- ***Strategic Consolidation of Community Banks.*** We believe our strategy of selectively acquiring and integrating community banks has provided us with economies of scale and improved our overall franchise efficiency. We expect to continue to pursue strategic acquisitions and believe our targeted market areas present us with many and varied acquisition opportunities. The following map illustrates the headquarters of potential acquisition opportunities broken out by asset size between $50.0 million and $1.5 billion within our target footprint.



We believe many of these banks will continue to be burdened by new and more complex banking regulations, resource constraints, competitive limitations, rising technological and other business costs, management succession issues and liquidity concerns.

Despite the significant number of opportunities, we intend to continue to employ a disciplined approach to our acquisition strategy and only seek to identify and partner with financial institutions that possess attractive market share, low-cost deposit funding and compelling noninterest income-generating businesses. We believe consolidation will lead to organic growth opportunities for us following the integration of businesses we acquire. We also expect to continue to manage our branch network in order to ensure effective coverage for customers while minimizing any geographic overlap and driving corporate efficiency.

- ***Enhance the Performance of the Banks We Acquire.*** We strive to successfully integrate the banks we acquire into our existing operational platform and enhance stockholder value through the creation of efficiencies within the combined operations. As a result of our acquisition history, we believe we have developed an experienced approach to integration that seeks to identify and execute on such synergies, particularly in the areas of technology, data processing, compliance and human resources, while generating earnings growth. We believe that our experience and reputation as a successful integrator and acquirer will allow us to continue to capitalize on additional opportunities within our markets in the future.

- ***Focus on Lending Growth in Our Metropolitan Markets While Increasing Deposits in Our Community Markets***. We are focused on continuing to grow organically and believe the markets in which we operate currently provide meaningful opportunities to expand our commercial customer base and increase our current market share. We believe our branch network is strategically split between growing metropolitan markets, such as Kansas City, Wichita and Tulsa, and stable community markets within Western Kansas, Western Missouri, Topeka, Northern Arkansas and Northern Oklahoma. We believe this diverse geographic footprint provides us with access to low cost, stable core deposits in community markets that we can use to fund commercial loan growth in our metropolitan markets. The following table shows our total deposits and loans (net of allowances) in our community markets and our metropolitan markets as of December 31, 2018, which we believe illustrates our execution of this strategy.

	Deposits		Loans	
	Amount[1]	Overall %	Amount[1]	Overall %
Metropolitan markets[2]	$ 1,016,214	33%	$ 1,481,921	58%
Community markets[3]	$ 2,107,233	67%	$ 1,093,487	42%

(1) Amounts in thousands.
(2) Represents 12 branches located in the Wichita, Kansas City and Tulsa metropolitan statistical areas ("MSAs").
(3) Represents 37 branches located outside of the Wichita, Kansas City and Tulsa MSAs.

Our team of seasoned bankers represents an important driver of our organic growth by expanding banking relationships with current and potential customers. We expect to continue to make opportunistic hires of talented and entrepreneurial bankers, particularly in our metropolitan markets, to further augment our growth. Our bankers are incentivized to increase the size of their loan and deposit portfolios and generate fee income while maintaining strong credit quality. We also seek to cross-sell our various banking products, including our deposit and treasury wealth management products, to our commercial loan customers, which we believe provides a basis for expanding our banking relationships as well as a stable, low-cost deposit base. We believe we have built a scalable platform that will support this continued organic growth.

- ***Preserve Our Asset Quality Through Disciplined Lending Practices***. Our approach to credit management uses well-defined policies and procedures, disciplined underwriting criteria and ongoing risk management. We believe we are a competitive and effective commercial and industrial lender, supplementing ongoing and active loan servicing with early-stage credit review provided by our bankers. This approach has allowed us to maintain loan growth with a diversified portfolio of high quality assets. We believe our credit culture supports accountable bankers, who maintain an ability to expand our customer base as well as make sound decisions for our Company. We believe our success in managing asset quality is illustrated by our aggregate net charge-off history.

Our Competitive Strengths

We believe the following competitive strengths will allow us to continue to achieve our principal objective of increasing stockholder value and generating consistent earnings growth through the organic and strategic expansion of our commercial banking franchise.

- ***Experienced Leadership and Management Team***. Our seasoned and experienced executive management team, senior leaders and board of directors have exhibited the ability to deliver stockholder value by consistently growing profitably while expanding our commercial banking franchise through acquisition and integration. Our executive management team has, on average, more than twenty years of experience working for large, billion-dollar-plus financial institutions in our markets during various economic cycles along with significant merger and acquisition experience in the financial services industry. Our executive management team has instilled a transparent and entrepreneurial culture that rewards leadership, innovation and problem solving.

- ***Focus on Commercial Banking***. We are primarily a commercial bank. As measured by outstanding balances at December 31, 2018, commercial loans composed over 71.2% of our loan portfolio and within our commercial loan portfolio, 68.2% of such loans were commercial real estate loans and 31.8% were commercial and industrial loans. We believe we have developed strong commercial relationships in our markets across a diversified range of sectors including key areas supporting regional and local economic activity and growth, such as manufacturing, freight/transportation, consumer services, franchising and commercial real estate. We believe we have also been successful in attracting customers from larger competitors because of our flexible and responsive approach in providing banking solutions tailored to meet our customers' needs while maintaining disciplined underwriting standards. Our relationship-based approach seeks to grow lending relationships with our customers as they expand their businesses, including geographically and through cross-selling our various other banking products, such as our deposit and treasury

management products. We have a growing presence in attractive commercial banking markets, such as Wichita, Kansas City and Tulsa, which we believe present significant opportunities to continue to increase our business banking activities.

- ***Our Ability to Consolidate***. Our branches are strategically located within metropolitan markets, Kansas City, Tulsa and Wichita, as well as stable community markets that present opportunities to expand our market share. Our executive management team has identified significant acquisition and consolidation opportunities ranging from small to large community banking institutions. We believe our track record of strategic acquisitions and effective integrations, combined with our expertise in our markets and scalable platform, will allow us to capitalize on these growth opportunities.

- ***Disciplined Acquisition Approach***. Our disciplined approach to acquisitions, consolidations and integrations includes the following: (i) selectively acquiring community banking franchises only at appropriate valuations, after taking into account risks that we perceive with respect to the targeted bank; (ii) completing comprehensive due diligence and developing an appropriate plan to address any legacy credit problems of the targeted institution; (iii) identifying an achievable cost savings estimate and holding our management accountable for achieving such estimates; (iv) executing definitive acquisition agreements that we believe provide adequate protections to us; (v) installing our credit procedures, audit and risk management policies and procedures and compliance standards upon consummation of the acquisition; (vi) collaborating with the target's management team to execute on synergies and cost saving opportunities related to the acquisition; (vii) involving a broader management team across multiple departments in order to help ensure the successful integration of all business functions; and (viii) scheduling the acquisition closing date to occur simultaneously with the platform conversion date. We believe this approach allows us to realize the benefits of the acquisition and create stockholder value while appropriately managing risk.

- ***Efficient and Scalable Platform with Capacity to Support Our Growth***. Through significant investments in technology and staff, our management team has built an efficient and scalable corporate infrastructure within our commercial banking franchise, including in the areas of banking processes, technology, data processing, underwriting and risk management, which we believe will support our continued growth. While expanding our infrastructure, several departmental functions have been outsourced to gain the experience of outside professionals while at the same time achieving more favorable economics and cost-effective solutions. Such outsourced areas include the internal audit function, investment securities management and select loan review. This outsourcing strategy has proven to control costs while adding enhanced controls and/or service levels. We believe that this scalable infrastructure will continue to allow us to efficiently and effectively manage our anticipated growth.

- ***Culture Committed to Talent Development, Transparency and Accountability***. We have invested in professional talent since our inception by building a team of "business persons first and bankers second" and economically aligned them with our stockholders, primarily through our stock purchase opportunities. In our efforts to become a destination for seasoned bankers with an entrepreneurial spirit, we have developed numerous leadership development programs. For example, "Equity University" is a year-long program we designed for our promising company-wide leaders. Additionally, the *Wichita Business* Journal named Equity Bank one of the "Best Places to Work" in 2014 and a "Best in Business" winner in 2015. We believe our well-trained and motivated professionals work most effectively in a corporate environment that emphasizes transparency, respect, innovation and accountability. Our culture provides our professionals with the empowerment to better serve our clients and our communities.

- ***Sophisticated and Customized Banking Products with High-Quality Customer Service***. We strive to offer our customers the sophisticated commercial banking products of large financial institutions with the personalized service of a community bank. Our management team's significant banking and lending experience in our markets has provided us with an understanding of the commercial banking needs of our customers that allows us to tailor our products and services to meet our customers' needs. In addition to offering a diverse array of banking products and services, we offer our customers the high-touch, relationship-based customer service experience of a community bank. For example, we utilize Flight, a customized customer relationship management system, to assign relationship officers to enhance relationships with our customers and identify and meet their particular needs.

- ***Strong Risk Management Practices***. We place significant emphasis on risk management as an integral component of our organizational culture without sacrificing growth. We believe our comprehensive risk management system is designed to make sure that we have sound policies, procedures and practices for the management of key risks under our risk framework (which includes market, operational, liquidity, interest rate sensitivity, credit, insurance, regulatory, legal and reputational risk) and that any exceptions are reported by senior management to our board of directors or audit committee. Our risk management practices are overseen by the Chairmen of our audit and risk committees, who have many years of combined banking experience, and our Chief Risk Officer, who has more than 30 years of banking experience. We believe that our enterprise risk management philosophy has been important in gaining and maintaining the confidence of our various constituencies and growing our business and footprint within our markets. We also believe our strong risk management practices are manifested in our asset quality statistics.

2018 Acquisitions

On May 4, 2018, we completed our acquisition of KBC pursuant to the terms of the Agreement and Plan of Reorganization, dated December 16, 2017, by and between the Company, Oz Merger Sub, Inc., a wholly-owned subsidiary of the Company ("Oz Merger Sub"), and KBC (the "KBC Merger Agreement"). At the effective time of the merger (the "KBC Effective Time"), Oz Merger Sub merged with and into KBC, with KBC surviving the merger as a wholly-owned subsidiary of the Company. Following the KBC Effective Time, KBC merged with and into the Company, with the Company surviving the merger. Subsequently, The First National Bank of Liberal, KBC's wholly-owned banking subsidiary, merged into Equity Bank, with Equity Bank surviving the merger. Pursuant to the KBC Merger Agreement, at the KBC Effective Time the Company issued an aggregate of 820,849 shares of its Class A common stock and paid $14.9 million in cash to the stockholders of KBC as consideration under the terms of the KBC Merger Agreement.

Also on May 4, 2018, we completed our acquisition of Adams pursuant to the terms of the Agreement and Plan of Reorganization, dated December 16, 2017, by and between the Company, Abe Merger Sub, Inc., a wholly-owned subsidiary of the Company ("Abe Merger Sub"), and Adams (the "Adams Merger Agreement"). At the effective time of the merger (the "Adams Effective Time"), Abe Merger Sub merged with and into Adams, with Adams surviving the merger as a wholly-owned subsidiary of the Company. Following the Adams Effective Time, Adams merged with and into the Company, with the Company surviving the merger. Subsequently, Adams Dairy Bank, Adam's wholly-owned banking subsidiary, merged with and into Equity Bank, with Equity Bank surviving the merger. Pursuant to the Adams Merger Agreement, at the Adams Effective Time the Company issued an aggregate of 344,063 shares of its Class A common stock and paid $4.0 million in cash to the stockholders of Adams as consideration under the terms of the Adams Merger Agreement.

On August 23, 2018, we completed our acquisition of City Bank pursuant to the terms of the Agreement and Plan of Merger, dated June 12, 2018, by and between the Company, Equity Bank, Docking Bancshares, Inc. ("Docking"), the sole shareholder of City Bank and City Bank (the "City Bank Merger Agreement"). At the effective time of the merger (the "City Bank Effective Time"), City Bank merged with and into Equity Bank, with Equity Bank surviving the merger. Pursuant to the City Bank Merger Agreement, at the City Bank Effective Time the Company paid $18.9 million to Docking as consideration under the terms of the City Bank Merger Agreement.

Subsequent Events

On February 8, 2019, we completed our acquisition of three branch locations from MidFirst Bank pursuant to a Branch Purchase and Assumption Agreement, dated September 21, 2018 (the "MidFirst Agreement"), between Equity Bank and MidFirst Bank. Pursuant to the MidFirst Agreement, Equity Bank assumed the deposits and certain other liabilities and acquired the loans and certain other assets associated with the three branch locations. For more information, see "Note 25 – SUBSEQUENT EVENTS" in the Notes to Consolidated Financial Statements.

Our Banking Services

A general description of the range of commercial banking products and other services we offer follows.

Lending Activities

We offer a variety of loans, including commercial and industrial, commercial real estate-backed loans (including loans secured by owner occupied commercial properties), commercial lines of credit, working capital loans, term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, real estate construction loans, homebuilder loans, agricultural, government guaranteed loans, letters of credit and other loan products to national and regional companies, restaurant franchisees, hoteliers, real estate developers, manufacturing and industrial companies, agribusiness companies and other businesses. We also offer various consumer loans to individuals and professionals including residential real estate loans, home equity loans, home equity lines of credit ("HELOCs"), installment loans, unsecured and secured personal lines of credit, overdraft protection and letters of credit. Lending activities originate from the relationships and efforts of our bankers, with an emphasis on providing banking solutions tailored to meet our customers' needs while maintaining our underwriting standards.

At December 31, 2018, we had total loans of $2.56 billion (net of allowances), representing 63.1% of our total assets. For additional information concerning our loan portfolio, see "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Loan Portfolio."

Concentrations of Credit Risk. Most of our lending activity is conducted with businesses and individuals in metropolitan Kansas City, Tulsa and Wichita. Our loan portfolio consists primarily of commercial and industrial loans, which were $582.5 million

and constituted 22.7% of our total loans net of allowances as of December 31, 2018, commercial real estate loans, which were $1.25 billion and constituted 48.8% of our total loans net of allowances as of December 31, 2018, and residential real estate loans, which were $444.5 million and constituted 17.3% of our total loans net of allowances as of December 31, 2018. Our commercial real estate loans are generally secured by first liens on real property. The remaining commercial and industrial loans are typically secured by general business assets, accounts receivable, inventory and/or the corporate guaranty of the borrower and/or personal guaranty of its principals. The geographic concentration subjects the loan portfolio to the general economic conditions within Arkansas, Kansas, Missouri and Oklahoma. The risks created by such concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover incurred losses in our loan portfolio as of December 31, 2018.

Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program. Concentrations of commercial real estate exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on commercial real estate concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards and credit risk review functions. Management believes these practices allow us to appropriately monitor concentrations in commercial real estate in our loan portfolio.

Large Credit Relationships. As of December 31, 2018, the aggregate amount of loans to our ten largest borrowers (including related entities) amounted to approximately $240.3 million, or 9.3% of total loans. See "Item 1A – Risk Factors – Risks Related to Our Business – Our largest loan relationships currently make up a material percentage of our total loan portfolio."

Loan Underwriting and Approval. Historically, we believe we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated. Our board of directors delegates loan authority up to board-approved hold limits collectively to our Directors' credit committee, which is comprised of members of our board of directors. Our board of directors also delegates limited lending authority to our internal loan committee, which is comprised of members of our executive management team. In addition, our board of directors also delegates more limited lending authority to our Chief Executive Officer, Chief Credit Officer, credit risk personnel and, on a further limited basis, to selected lending managers in each of our target markets. Lending officers and relationship managers, including our bankers, have further limited individual loan authority. When the total relationship exceeds an individual's loan authority, a higher authority or credit committee approval is required. The objective of our approval process is to provide a disciplined, collaborative approach to larger credits while maintaining responsiveness to client needs.

Loan decisions are documented as to the borrower's business, purpose of the loan, evaluation of the repayment source and associated risks, evaluation of collateral, covenants and monitoring requirements and the risk rating rationale. Our strategy for approving or disapproving loans is to follow conservative loan policies and consistent underwriting practices which include:

- maintaining close relationships among our customers and their designated banker to ensure ongoing credit monitoring and loan servicing;
- granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit;
- ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for our loan portfolio as a whole and for loans within each category; and
- ensuring that each loan is properly documented and that any insurance coverage requirements are satisfied.

Managing credit risk is a Company-wide process. Our strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our bankers. Our Chief Credit Officer provides Company-wide credit oversight and periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to assist in the identification of problem assets and to confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio.

Our loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of

collateral securing the loan and the borrower's income. Such loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate.

In addition, our loan policies provide guidelines for personal guarantees; an environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for loan losses and other matters relating to lending practices.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal law. In general, the Bank is subject to a legal lending limit on loans to a single borrower based on the Bank's capital level. The dollar amounts of the Bank's lending limit increases or decreases as the Bank's capital increases or decreases. The Bank is able to sell participations in its larger loans to other financial institutions, which allows it to manage the risk involved in these loans and to meet the lending needs of its customers requiring extensions of credit in excess of these limits.

The Bank's legal lending limit as of December 31, 2018 on loans to a single borrower was $84.5 million. However, we typically maintain an in-house limit of $25.0 million for loans to a single borrower. We have strict policies and procedures in place for the establishment of hold limits with respect to specific products and businesses and evaluating exceptions to the hold limits for individual relationships.

Our loan policies provide general guidelines for loan-to-value ratios that restrict the size of loans to a maximum percentage of the value of the collateral securing the loans, which percentage varies by the type of collateral. Our internal loan-to-value limitations follow limits established by applicable law.

Loan Types. We provide a variety of loans to meet our customers' needs. The section below discusses our general loan categories.

<u>Commercial and Industrial Loans</u>. We make commercial and industrial loans, including commercial lines of credit, working capital loans, commercial real estate-backed loans (including loans secured by owner occupied commercial properties), term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, real estate construction loans, homebuilder loans, restaurant franchisees, hoteliers, government guaranteed loans, letters of credit and other loan products, primarily in our target markets that are underwritten on the basis of the borrower's ability to service the debt from income. We take as collateral a lien on general business assets including, among other things, available real estate, accounts receivable, inventory and equipment and generally obtain a personal guaranty of the borrower or principal. Our commercial and industrial loans generally have variable interest rates and terms that typically range from one to five years depending on factors such as the type and size of the loan, the financial strength of the borrower/guarantor and the age, type and value of the collateral. Fixed rate commercial and industrial loan maturities are generally short-term, with three-to-five year maturities, or include periodic interest rate resets. Terms greater than five years may be appropriate in some circumstances based upon the useful life of the underlying asset being financed or if some form of credit enhancement, such as a government guarantee is obtained.

We also participate in syndicated loans (loans made by a group of lenders, including us, who share or participate in a specific loan) with a larger regional financial institution as the lead lender. Syndicated loans are typically made to large businesses (which are referred to as shared national credits) or middle market companies (which do not meet the regulatory definition of shared national credits), both of which are secured by business assets or equipment, and also commercial real estate. The syndicate group for both types of loans usually consists of two to three other financial institutions. In particular, we frequently work with a large regional financial institution, which is often the lead lender with respect to these loans. We have developed this portfolio to diversify our balance sheet, increase our yield and mitigate interest rate risk due to the variable rate pricing structure of the loans. We have a defined set of credit guidelines that we use when evaluating these credits. Although other large financial institutions are the lead lenders on these loans, our credit department does its own independent review of these loans and the approval process of these loans is consistent with our underwriting of loans and our lending policies. We expect to continue our syndicated lending program for the foreseeable future.

In general, commercial and industrial loans may involve increased credit risk and, therefore, typically yield a higher return. The increased risk in commercial and industrial loans derives from the expectation that such loans generally are serviced principally from the operations of the business and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan. In addition, the collateral securing commercial and industrial loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate exposing us to increased credit risk. As a result of these additional complexities, variables and risks, commercial and industrial loans require extensive underwriting and servicing.

Commercial Real Estate Loans. We make commercial mortgage loans collateralized by real estate, which may be owner occupied or non-owner occupied real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We require our commercial real estate loans to be secured by well-managed property with adequate margins and generally obtain a guarantee from responsible parties. Our commercial mortgage loans generally are collateralized by first liens on real estate, have variable or fixed interest rates and amortize over a 10 to 20 year period with balloon payments or rate adjustments due at the end of three to seven years. Periodically, we will utilize an interest rate swap to hedge against long term fixed rate exposures. Commercial mortgage loans considered for interest rate swap hedging typically have terms of greater than five years.

Payments on loans secured by such properties are often dependent on the successful operation (in the case of owner-occupied real estate) or management (in the case of non-owner-occupied real estate) of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting commercial real estate loans, we seek to minimize these risks in a variety of ways, including giving careful consideration to the property's age, condition, operating history, future operating projections, current and projected market rental rates, vacancy rates, location and physical condition. The underwriting analysis also may include credit verification, reviews of appraisals, environmental hazards or reports, the borrower's liquidity and leverage, management experience of the owners or principals, economic condition and industry trends.

Real Estate Construction Loans. We make loans to finance the construction of residential and non-residential properties. Construction loans generally are collateralized by first liens on real estate and have floating interest rates. We conduct periodic inspections, either directly or through an agent, prior to approval of periodic draws on these loans. Underwriting guidelines similar to those described above also are used in our construction lending activities. Our construction loans have terms that typically range from six months to two years depending on factors such as the type and size of the development and the financial strength of the borrower/guarantor. Loans are typically structured with an interest only construction period. Loans are underwritten to either mature at the completion of construction, or transition to a traditional amortizing commercial real estate facility at the completion of construction, in line with other commercial real estate loans held at the bank.

Construction loans generally involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan-to-value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and it may be necessary to hold the property for an indeterminate period of time subject to the regulatory limitations imposed by local, state or federal laws.

1 – 4 Family Residential Mortgages. We make residential real estate loans collateralized by owner-occupied properties located in our market areas. We offer a variety of mortgage loan products with amortization periods up to 30 years including traditional 30 year fixed loans and various adjustable rate mortgages. Typically, loans with a fixed interest rate of greater than 10 years are held for sale and sold on the secondary market, and adjustable rate mortgages are held for investment. Loans collateralized by one-to-four family residential real estate generally are originated in amounts of no more than 80% of appraised value. Home equity loans and HELOCs are generally limited to a combined loan-to-value ratio of 80%, including the subordinate lien. We retain a valid lien on real estate, obtain a title insurance policy that insures that the property is free from encumbrances and require hazard insurance.

From time to time we have purchased pools of residential mortgages originated by other financial institutions to hold for investment with the intent to diversify our residential mortgage loan portfolio, and increase our yield. These loans purchased typically have an adjustable rate with a fixed period of no more than 10 years, and are collateralized by one-to-four family residential real estate. We have a defined set of credit guidelines that we use when evaluating these credits. Although these loans were originated and underwritten by another institution, our mortgage and credit departments do their own independent review of these loans. These loans typically are secured by collateral outside of our branch footprint.

Agricultural Loans. We offer both fixed-rate and adjustable-rate agricultural real estate loans to our customers. We also make loans to finance the purchase of machinery, equipment and breeding stock, seasonal crop operating loans used to fund the borrower's crop production operating expenses, livestock operating and revolving loans used to purchase livestock for resale and related livestock production expense.

Generally, our agricultural real estate loans amortize over periods not in excess of 20 years and have a loan-to-value ratio of 80%. We also originate agricultural real estate loans directly and through programs sponsored by the Farm Service Agency, an agency of the United States Department of Agriculture ("FSA"), which provides a partial guarantee on loans underwritten to FSA

standards. Agricultural real estate loans generally carry higher interest rates and have shorter terms than 1-4 family residential real estate loans. Agricultural real estate loans, however, entail additional credit risks compared to one- to four-family residential real estate loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. We generally require farmers to obtain multi-peril crop insurance coverage through a program partially subsidized by the Federal government to help mitigate the risk of crop failures.

Agricultural operating loans may be originated at an adjustable- or fixed-rate of interest and generally for a term of up to 7 years. In the case of agricultural operating loans secured by breeding livestock and/or farm equipment, such loans are originated at fixed rates of interest for a term of up to 5 years. We typically originate agricultural operating loans on the basis of the borrower's ability to make repayment from the cash flow of the borrower's agricultural business. As a result, the availability of funds for the repayment of agricultural operating loans may be substantially dependent on the success of the business itself and the general economic environment. A significant number of agricultural borrowers with these types of loans may qualify for relief under a chapter of the U.S. Bankruptcy Code that is designed specifically for the reorganization of financial obligations of family farmers and which provides certain preferential procedures to agricultural borrowers compared to traditional bankruptcy proceedings pursuant to other chapters of the U.S. Bankruptcy Code.

Consumer Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured term loans and home improvement loans. Consumer loans are underwritten based on the individual borrower's income, current debt level, past credit history and the value of any available collateral. The terms of consumer loans vary considerably based upon the loan type, nature of collateral and size of the loan. Consumer loans entail greater risk than do residential real estate loans because they may be unsecured or, if secured, the value of the collateral, such as an automobile or boat, may be more difficult to assess and more likely to decrease in value than real estate. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. The remaining deficiency often will not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

Deposit Products

Our lending and investing activities are primarily funded by deposits. We offer a variety of deposit accounts with a wide range of interest rates and terms including demand, savings, money market and time deposits with the goal of attracting a wide variety of customers, including small to medium-sized businesses. We employ customer acquisition strategies to generate new account and deposit growth, such as customer referral incentives, search engine optimization, targeted direct mail and email campaigns, in addition to conventional marketing initiatives and advertising. Our goal is to emphasize our Signature Deposits and cross-sell our deposit products to our loan customers.

We design our consumer deposit products specifically for the lifestyles of clients in the communities we serve. Some accounts emphasize and reward debit card usage, while others appeal to higher deposit customers. We also utilize Equity Connect, which is our customer relationship management system, to assist our personnel in deepening and expanding current relationships by providing timely identification of potential needs. It also serves as a methodical tool to track customer onboarding and retention actions by account officers. We do participate in the CDARS service via Promontory Interfinancial Network as an option for our customers to place funds and occasionally as a funding source.

We also bid for, and accept, deposits from public entities in our markets.

Other Products and Services

We offer banking products and services that are competitively priced with a focus on convenience and accessibility. We offer a full suite of online banking solutions including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, mobile banking solutions for iPhone and Android phones, including remote check deposit with mobile bill pay. We offer extended drive-through hours, ATMs and banking by telephone, mail and personal appointment. We offer debit cards with no ATM surcharges or foreign ATM fees for checking customers, plus night depository, direct deposit, cashier's and travelers checks and letters of credit, as well as treasury management services, wire transfer services and automated clearing house ("ACH") services.

We offer a full array of commercial treasury management services designed to be competitive with banks of all sizes. Treasury Management Services include balance reporting (including current day and previous day activity), transfers between accounts, wire transfer initiation, ACH origination and stop payments. Cash management deposit products consist of lockbox, remote deposit capture, positive pay, reverse positive pay, account reconciliation services, zero balance accounts and sweep accounts including loan sweep.

Our Markets

As of December 31, 2018, we conducted banking operations through our 49 full service branches located in Arkansas, Kansas, Missouri and Oklahoma. We believe that an important factor contributing to our historical performance and our ability to execute our strategy is the attractiveness and specific characteristics of our existing and target markets. In particular, we believe our markets provide us with access to low cost, stable core deposits in smaller community markets that we can use to fund commercial loan growth in metropolitan areas.

We believe our existing and target markets are among some of the most attractive in the Midwestern United States. Our markets are home to thousands of manufacturing and trade jobs, and have experienced recent growth in the healthcare, consumer services and technology sectors. We believe the central geographic footprint of our markets provides numerous industrial plants, facilities and manufacturing businesses with a central shipping location from which they can distribute their products. Our markets also serve as the corporate headquarters for Koch Industries Inc., Hallmark Cards, Inc., H&R Block, Inc., Sprint Corporation, Cerner Corporation, AMC Entertainment Holdings, Inc., American Century Investments, Garmin International, Inc., Cessna Aircraft Company, Seaboard Corporation, Cargill Meat Solutions, Spirit AeroSystems, Dairy Farmers of America, Quick Trip, ONEOK, and Williams Companies and host a major presence for companies across a variety of industries, including Bombardier Learjet, Collective Brands, Inc., FedEx, Flexsteel, Hills Pet Nutrition, Inc., Textron Aviation Services, Tyson Foods, Williams Companies, Phillips 66, Rib Crib, Honeywell, Bayer Corporation and Dean & Deluca, Inc. We understand the community banking needs of the businesses and individuals within our markets and have focused on developing a commercial and personal banking platform to service such needs.

The markets in which we operate have generally experienced stable population growth over the past five years, with modest population growth expected over the next five years. Wichita is the largest MSA in Kansas and the No. 89 MSA in the U.S. with a population of over 648,000. Kansas City, Missouri and Kansas is the No. 30 largest MSA in the U.S. with a population of 2.2 million, and Tulsa, Oklahoma, is No. 54 with a MSA population of over 1 million. In addition, we believe our markets are stable and have weathered various economic cycles relatively well. Household income is expected to increase by a five-year growth rate of 4.27%. Our markets are expected to experience moderate compounded annual growth in consumer and commercial deposits, with a five-year compounded average growth rate of 3.79% for commercial deposits, according to data from Fiserv BancIntelligence, and 1.90% in consumer deposits.

We compete for loans, deposits and financial services in our markets against many other bank and nonbank institutions, including community banks, regional banks, national banks, Internet-based banks, money market and mutual funds, brokerage houses, credit unions, mortgage companies and insurance companies. We believe that our comprehensive suite of sophisticated banking products provides us with a competitive advantage over smaller community banks within our markets while our high-quality, relationship-based customer service will allow us to take market share from larger regional and national banks. In addition, our markets present significant acquisition, integration and consolidation opportunities, and we expect to continue to pursue strategic acquisitions in our markets. We believe that many small to mid-sized banking organizations that currently serve our markets are acquisition opportunities for us, either because of scale and operational challenges, regulatory pressures, management succession issues or stockholder liquidity needs. We think we offer an attractive solution for such banks because we retain the community banking feel and services upon which their customers expect and rely.

Information Technology Systems

We continue to make significant investments in our information technology systems and staff for our banking and lending operations and treasury management activities. We believe this investment will support our continued growth, permit us to enhance our capabilities to offer new products and overall customer experience and enable us to provide scale for future growth and acquisitions. We use nationally recognized software vendors and their support allows us to operate our data processing and core systems in-house. Our internal network and e-mail systems are maintained in-house and we have enhanced our back-up site at a decentralized location. This back-up site provides for redundancy and disaster recovery capabilities.

The majority of our other systems, including our electronic funds transfer, transaction processing and online banking services are hosted by third-party service providers. The scalability of this infrastructure will support our growth strategy. In addition, the tested capability of these vendors to automatically switch over to standby systems should allow us to recover our systems and provide business continuity quickly in case of a disaster.

Due to our heavy reliance on the strength and capability of our technology systems, which we use both to interface with our customers and to manage our internal financial reporting and other systems, we utilize a layered cyber security model designed to protect all systems and sensitive data. This layered model is composed of a variety of different components from a range of security vendors. The various components are centrally managed and monitored creating a multi-layered, interlocking, cybersecurity defense system. We believe this defense system is dynamic and designed to adjust itself to protect against the latest cyber threats and attack vectors.

Competition

The financial services industry is highly competitive. We compete for loans, deposits, and financial services in all of our principal markets. We compete directly with other bank and nonbank institutions located within our markets, Internet-based banks, out-of-market banks, and bank holding companies that advertise in or otherwise serve our markets, along with money market and mutual funds, brokerage houses, mortgage companies, and insurance companies or other commercial entities that offer financial services products. Competition involves efforts to retain current customers, obtain new loans and deposits, increase the scope and type of services offered, and offer competitive interest rates paid on deposits and charged on loans. Many of our competitors enjoy competitive advantages, including greater financial resources, a wider geographic presence, more accessible branch office locations, the ability to offer additional services, more favorable pricing alternatives, and lower origination and operating costs. Some of our competitors have been in business for a long time and have an established customer base and name recognition. We believe that our competitive pricing, personalized service, and community involvement enable us to effectively compete in the communities in which we operate.

Employees

As of December 31, 2018, we had approximately 627 full-time equivalent employees. None of our employees are represented by any collective bargaining unit or is a party to a collective bargaining agreement.

Available Information

The Company files reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company makes available, free of charge, on its website at http://investor.equitybank.com its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after the Company electronically files, or furnishes, such materials to the SEC. The SEC also maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The information contained on or accessible from our website does not constitute a part of this Annual Report on Form 10-K and is not incorporated by reference herein.

Supervision and Regulation

Banking is a complex, highly regulated industry. Consequently, our growth and earnings performance can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency ("OCC"), the Kansas Office of State Bank Commissioner ("OSBC"), the Consumer Financial Protection Bureau ("CFPB"), the IRS, and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of those goals, the U.S. Congress and the individual states have created several regulatory agencies and enacted numerous laws, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), that govern banks and the banking industry. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors and the public, rather than the stockholders and creditors.

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. The federal banking agencies have issued a number of significant new regulations as a result of the Dodd-Frank Act and a number of additional regulations are pending or may be proposed. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our businesses may be affected by any new regulation or statute.

The following is an attempt to summarize some of the relevant laws, rules and regulations governing banks and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Bank Holding Company Regulation

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended, or the BHC Act, and are subject to supervision and regulation by the Federal Reserve. Federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions, for violation of laws and policies.

Activities Closely Related to Banking

The BHC Act prohibits a bank holding company, with certain limited exceptions, from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company that is not a bank or from engaging in any activities other than those of banking, managing or controlling banks and certain other subsidiaries or furnishing services to or performing services for its subsidiaries. Bank holding companies also may engage in or acquire interests in companies that engage in a limited set of activities that are so closely related to banking as to be a proper incident thereto. If a bank holding company has become a financial holding company ("FHC"), it may engage in a broader set of activities, including insurance underwriting and broker-dealer services as well as activities that are jointly determined by the Federal Reserve and the U.S. Treasury to be financial in nature or incidental to such financial activity. FHCs may also engage in activities that are determined by the Federal Reserve to be complementary to financial activities. We have not elected to be an FHC at this time. To maintain FHC status, the bank holding company and all subsidiary depository institutions must be "well managed" and "well capitalized." Additionally, all subsidiary depository institutions must have received at least a "Satisfactory" rating on its most recent CRA examination. Failure to meet these requirements may result in limitations on activities and acquisitions.

Safe and Sound Banking Practices

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve may order a bank holding company to terminate an activity or control of a non-bank subsidiary if such activity or control constitutes a significant risk to the financial safety, soundness or stability of a subsidiary bank and is inconsistent with sound banking principles. Regulation Y also requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth.

Consistent with the Dodd-Frank Act codification of the Federal Reserve's policy that bank holding companies must serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of prudence, a bank holding company generally should not maintain a rate of distributions to stockholders unless its available net income has been sufficient to fully fund the distributions and the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality and overall financial condition.

In addition, the Federal Reserve Supervisory Letter SR 09-4 provides guidance on the declaration and payment of dividends, capital redemptions and capital repurchases by a bank holding company. Supervisory Letter SR 09-4 provides that, as a general matter, a bank holding company should eliminate, defer or significantly reduce its dividends if: (i) the bank holding company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) the bank holding company's prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the bank holding company is operating in an unsafe and unsound manner.

Limitations on Equity Bank's ability to pay dividends could, in turn, affect our ability to pay dividends to our stockholders. For more information concerning Equity Bank's ability to pay dividends, see "Bank Regulation" below.

The Federal Reserve has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. Notably, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), provides that the Board of Governors of the Federal Reserve can assess civil money penalties for such practices or violations which can be as high as $1 million per day. FIRREA contains expansive provisions regarding the scope of individuals and entities against which such penalties may be assessed.

Annual Reporting and Examinations

We are required to file annual and quarterly reports with the Federal Reserve and such additional information as the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve may examine a bank holding company or any of its subsidiaries and charge the company for the cost of such an examination. We are also subject to reporting and disclosure requirements under state and federal securities laws.

Rules on Regulatory Capital

Regulatory capital rules released in July 2013 pursuant to the Basel III requirements ("Basel III rules"), implement higher minimum capital requirements for bank holding companies and banks. The Basel III rules include a new common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These enhancements are designed to both improve the quality and increase the quantity of capital required, on a fully phased-in basis, to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The Basel III rules require banks and bank holding companies to maintain a minimum common equity Tier 1 ("CET1") capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of CET1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. Under the Basel III rules, bank holding companies must maintain a total risk-based capital ratio of 10% and a total Tier 1 risk-based capital ratio of 6% to be considered "well capitalized" for purposes of certain rules and requirements.

The Basel III rules also require banks to maintain a CET1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements. The risk-based ratios include a "capital conservation buffer" of 2.5%. The new capital conservation buffer requirement started to be phased in beginning January 2016 at 0.625% of risk-weighted assets and increased by that amount each year until it was fully implemented in January 2019. An institution is subject to limitations on certain activities, including payment of dividends, share repurchases and discretionary bonuses to executive officers, if its capital level is below the buffer amount.

The Basel III rules attempt to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments, such as trust preferred securities, in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions. In addition, the Basel III rules require that most regulatory capital deductions be made from CET1 capital.

Under the Basel III rules, to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to risk-weighted assets.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well capitalized standards and future regulatory change could impose higher capital standards as a routine matter. Our regulatory capital ratios and those of Equity Bank are in excess of the levels established for well capitalized institutions under the Basel III rules.

The Basel III rules also set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn will affect the calculation of risk-based ratios. Under the Basel III rules, higher or more sensitive risk weights would be assigned to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on non-accrual, foreign exposures and certain corporate exposures. In addition, the Basel III rules include (i) alternative standards of credit worthiness consistent with the Dodd-Frank Act, (ii) greater recognition of collateral and guarantees and (iii) revised capital treatment for derivatives and repo-style transactions.

In addition, the Basel III rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than $15 billion in consolidated assets as of December 31, 2009, are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010, on a permanent basis, without any phase out. Community banks were also permitted to make a one-time election in their March 31, 2015, quarterly filings to opt-out of the requirement to include most accumulated other comprehensive income

("AOCI") components in the calculation of CET1 capital and, in effect, retain the AOCI treatment under the current capital rules. Under the Basel III rules, we made the one-time, permanent election to continue to exclude AOCI from capital.

The Economic Growth, Regulatory Relief and Consumer Protection Act, which was enacted in May 2018, directs the federal banking agencies to develop a community bank leverage ratio ("CBLR") for certain community banking organizations. Consistent with this directive, the federal banking agencies issued proposed rules implementing the CBLR in November 2018. Under the proposed rules, a bank or holding company would be eligible to elect the CBLR framework if the institution had less than $10.0 billion in total consolidated assets, met certain risk-based qualifying criteria and had a CBLR greater than 9%. A qualifying community banking organization that elected to opt in to the CBLR framework would not be subject to risk-based and leverage capital requirements under the Basel III rules.

Imposition of Liability for Undercapitalized Subsidiaries

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of nontraditional activities, as well as reflect the actual performance and expected risk of loss on multifamily mortgages.

Pursuant to FDICIA, each federal banking agency has specified, by regulation, the levels at which an insured institution would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2018, Equity Bank exceeded the capital levels required to be deemed well capitalized.

Additionally, FDICIA requires bank regulators to take prompt corrective action to resolve problems associated with insured depository institutions. In the event an institution becomes undercapitalized, it must submit a capital restoration plan.

Under these prompt corrective action provisions of FDICIA, if a controlled bank is undercapitalized, then the regulators could require the bank to submit a capital restoration plan. If an institution becomes significantly undercapitalized or critically undercapitalized, additional and significant limitations are placed on the institution. The capital restoration plan of an undercapitalized institution will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan until it becomes adequately capitalized. We have control of Equity Bank for the purpose of this statute.

Further, by statute and regulation, a bank holding company must serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, may be required to commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. In addition, if the Federal Reserve believes that a bank holding company's activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank holding company or its stockholders.

Acquisitions by Bank Holding Companies

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, the convenience and needs of the communities to be served, the effect on competition as well as the financial stability of the United States. The Attorney General of the United States may, within 30 days after approval of an acquisition by the Federal Reserve, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts. Under certain circumstances, the 30-day period may be shortened to 15 days.

Control Acquisitions

The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as ourselves, would, under the circumstances set forth in the presumption, constitute acquisition of control of us.

In addition, the CBCA prohibits any entity from acquiring 25% (the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On September 22, 2008, the Board of Managers of the Federal Reserve issued a policy statement on equity investments in bank holding companies and banks, which states the Federal Reserve generally will not consider an entity's investment to be "controlling" if the entity owns or controls less than 25% of the voting shares and less than 33% total equity of the bank holding company or bank and has limited business relationships, director representation or other indicia of control. Depending on the nature of the overall investment and the capital structure of the banking organization, the Federal Reserve will permit, based on the policy statement, noncontrolling investments in the form of voting and nonvoting shares that represent in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

Interstate Branching

The Dodd-Frank Act permits a national or state bank, with the approval of its regulator, to open a branch in any state if the law of the state in which the branch is located would permit the establishment of the branch if the bank were a bank chartered in that state.

Anti-Tying Restrictions

Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Bank Regulation

Equity Bank operates under a Kansas state bank charter and is subject to regulation by the OSBC and the Federal Reserve. The OSBC and the Federal Reserve regulate or monitor all areas of Equity Bank's operations, including capital requirements, issuance of stock, declaration of dividends, interest rates, deposits, loans, investments, borrowings, record keeping, establishment of branches, acquisitions, mergers, information technology and employee responsibility and conduct. The OSBC places limitations on activities of Equity Bank, including the issuance of capital notes or debentures and the holding of real estate and personal property, and requires Equity Bank to maintain a certain ratio of reserves against deposits. The OSBC requires Equity Bank to file a report annually, in addition to any periodic report requested.

The Federal Reserve and the OSBC regularly examine Equity Bank and its records. The FDIC may also periodically examine and evaluate insured banks.

Standards for Safety and Soundness

As part of FDICIA's efforts to promote the safety and soundness of depository institutions and their holding companies, appropriate federal banking regulators are required to have in place regulations specifying operational and management standards (addressing internal controls, loan documentation, credit underwriting and interest rate risk), asset quality and earnings. As discussed above, the Federal Reserve and the FDIC have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC may terminate the deposit insurance of any institution that it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties of up to $1 million per day, issue cease-and-desist or removal orders, seek injunctions and publicly disclose such actions.

The ability of Equity Bank, as a Kansas state bank, to pay dividends is restricted under the Kansas Banking Code. Pursuant to the Kansas Banking Code, a Kansas state bank may declare and pay a dividend out of undivided profits after deducting losses to the holders of record of the stock outstanding on the date the dividend is declared. However, prior to the declaration of any dividend, a Kansas state bank must transfer 25% of its net profits since the last preceding dividend to its surplus fund until the surplus fund is equal to its total capital stock. In addition, no dividend may be declared without the approval of the OSBC, if such dividend would reduce the surplus fund to an amount less than 30% of the resulting total capital of the bank.

Equity Bank is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the federal regulators.

The present and future dividend policy of Equity Bank is subject to the discretion of its boards of directors. In determining whether to pay dividends to us and, if made, the amount of the dividends, the board of directors of Equity Bank considers many of the same factors discussed above. Equity Bank cannot guarantee that it will have the financial ability to pay dividends to us, or if

dividends are paid, that they will be sufficient for us to make distributions to our stockholders. Equity Bank is not obligated to pay dividends.

Insider Transactions

A bank is subject to certain restrictions on extensions of credit to insiders of the bank or of any affiliate. Insiders include executive officers, directors, certain principal stockholders, and their related interests. Extensions of credit include derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions to the extent that such transactions cause a bank to have credit exposure to an insider. Any extension of credit to an insider must:

- Be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties; and
- Involve no more than the normal risk of repayment or present other unfavorable features.

For loans above certain threshold amounts, board approval is required, and the interested insider may not be involved. In addition, a bank may purchase an asset from or sell an asset to an insider only if the transaction is on market terms and, if representing more than 10% of capital, is approved in advance by the majority of disinterested directors.

Additional and more stringent limits apply to a bank's transactions with its own executive officers and certain directors. These limits do not apply to transactions with all directors nor to insiders of the bank's affiliates.

Restrictions on Transactions with Affiliates

Section 23A of the Federal Reserve Act imposes quantitative and qualitative limits on transactions between a bank and any affiliate and requires certain levels of collateral for any such loans. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of a holding company. Section 23B of the Federal Reserve Act requires that certain transactions between Equity Bank and its affiliates must be on terms substantially the same, or at least as favorable, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. In the absence of such comparable transactions, any transaction between Equity Bank and its affiliates must be on terms and under circumstances, including credit standards, which in good faith would be offered to or would apply to nonaffiliated companies.

Capital Adequacy

In addition to the capital rules applicable to both banks and bank holding companies discussed above, under the prompt corrective action regulations, the federal bank regulators are required and authorized to take supervisory actions against undercapitalized banks. For this purpose, a bank is placed in one of the following five categories based on the bank's capital (as of the new capital rules discussed above):

- well capitalized (at least 5% leverage capital, 6.5% common equity Tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% common equity Tier 1 risk-based capital, 4% Tier 1 risk-based capital and 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The regulators have the discretion to downgrade a bank from one category to a lower category. Generally, subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is "critically undercapitalized." An institution that is categorized as "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" is required to submit an acceptable capital restoration plan to its appropriate federal banking agency.

Failure to meet capital guidelines could subject Equity Bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and other restrictions on our business.

As of December 31, 2018, Equity Bank exceeded the capital levels required to be deemed well capitalized.

Deposit Insurance

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund ("DIF"), and safeguards the safety and soundness of the banking and thrift industries. The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount to $250,000. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

In connection with the Dodd Frank Act's requirement that insurance assessments be based on assets, the FDIC has redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity. The FDIC also has revised its deposit insurance assessment rate schedule in light of this change to the assessment base. The revised rate schedule and other revisions to the assessment rules became effective July 1, 2016.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, Equity Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the federal government established to recapitalize the predecessor to DIF. These assessments, which are included in Deposit Insurance Premiums on the Consolidated Statements of Income, will continue until the FICO bonds mature in September 2019.

Consumer Financial Protection Bureau

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Depository institutions with less than $10 billion in assets, such as Equity Bank, are subject to rules promulgated by the CFPB, which may increase their compliance risk and the costs associated with their compliance efforts, but such banks will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB.

The CFPB has issued a number of regulations related to the origination of mortgages, foreclosure and overdrafts as well as many other consumer issues. Additionally, the CFPB has proposed, or will be proposing, additional regulations on issues that directly relate to our business. Although it is difficult to predict at this time the extent to which the CFPB's final rules impact the operations and financial condition of Equity Bank, such rules may have a material impact on Equity Bank's compliance costs, compliance risk and fee income.

Privacy

Under the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own

products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

Recent cyber attacks against bank and other institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking agencies to issue extensive guidance on cyber security. The regulatory agencies may devote more resources to this part of their safety and soundness examination than they may have in the past.

Like other lending institutions, our subsidiary bank uses credit bureau data in its underwriting activities. Use of that data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis. The act and its implementing regulation, Regulation V, cover credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 allows states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the act.

The Patriot Act, International Money Laundering Abatement and Financial Anti-Terrorism Act and Bank Secrecy Act

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The Patriot Act and the International Money Laundering and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act and expanded the extra-territorial jurisdiction of the United States. The U.S. Treasury has issued a number of implementing regulations that apply various requirements of the Patriot Act to financial institutions, such as Equity Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Failure of a financial institution and its holding company to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, Equity Bank will continue to expend significant staffing, technology and financial resources to maintain programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing of Equity Bank's compliance with the Bank Secrecy Act on an ongoing basis.

Community Reinvestment Act

The Community Reinvestment Act ("CRA") requires that, in connection with examinations of financial institutions within its jurisdiction, the federal and the state banking regulators, as applicable, evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Additionally, we must publicly disclose the terms of various CRA-related agreements.

Other Regulations

Interest and other charges that Equity Bank collects or contracts for are subject to state usury laws and federal laws concerning interest rates. Equity Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various governmental agencies charged with the responsibility of implementing these federal laws.

In addition, Equity Bank's deposit operations are subject to the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement such act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Concentrated Commercial Real Estate Lending Regulations

The Federal Reserve and other federal banking regulatory agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and increasing capital requirements.

All of the above laws and regulations add significantly to the cost of operating the Company and Equity Bank and thus have a negative impact on profitability. We would also note that there has been a tremendous expansion experienced in recent years by certain financial service providers that are not subject to the same rules and regulations as the Company and Equity Bank. These institutions, because they are not so highly regulated, have a competitive advantage over the Company and Equity Bank and may continue to draw large amounts of funds away from banking institutions, with a continuing adverse effect on the banking industry in general.

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence, to a significant extent, the overall growth of bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. We cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings.

Item 1A: Risk Factors

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of, or that management currently deems immaterial, may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment. Some statements in the following risk factors constitute forward-looking statements. Please refer to "Cautionary Note Regarding Forward-Looking Statements" elsewhere in this Annual Report on Form 10-K.

Risks Relating to Our Business

Our business is concentrated in, and largely dependent upon, the continued growth and welfare of the general geographic markets in which we operate.

Our banking operations are concentrated in Arkansas, Kansas, Missouri and Oklahoma. As a result, our financial condition and results of operations and cash flows are affected by changes in the economic conditions of our markets. Our success depends to a significant extent upon the business activity, population, income levels, deposits, and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans, affect the value of collateral underlying loans, impact our ability to attract deposits, and generally affect our financial conditions and results of operations. Because of our geographic concentration, we may be less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

A return of recessionary conditions could result in increases in our level of nonperforming loans and/or reduced demand for our products and services, which could have an adverse effect on our results of operations.

Economic recession or other economic problems, including those affecting our markets and regions, but also those affecting the U.S. or world economies, could have a material adverse impact on the demand for our products and services. If economic conditions deteriorate, or if there are negative developments affecting the domestic and international credit markets, the value of our loans and investments may be harmed, which in turn would have an adverse effect on our financial performance, and our financial condition may be adversely affected. In addition, although deteriorating market conditions could adversely affect our financial condition, results of operations, and cash flows, we may not benefit from any market growth or favorable economic conditions, either in our primary market areas or nationally, even if they do occur.

Difficult conditions in the market for financial products and services may materially and adversely affect our business and results of operations.

Dramatic declines in the housing market during the previous recessionary period, along with increased foreclosures and unemployment, resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, and, in some cases, to fail. This market turmoil and tightening of credit led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. Although conditions have improved, a return of these trends could have a material adverse effect on our business and operations. Negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for loan and credit losses. Economic deterioration that affects household and/or corporate incomes could also result in reduced demand for credit or fee-based products and services. These conditions would have adverse effects on us and others in the financial services industry.

We rely heavily on our management team and could be adversely affected by the unexpected loss of key officers.

We are led by an experienced management team with substantial experience in the markets that we serve and the financial products that we offer. Our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We may not be successful in retaining our key employees and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business because of their skills, knowledge of our market and financial products, years of industry experience, long-term customer relationships and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could have an adverse effect on our business, financial condition and results of operations.

Our ability to grow our loan portfolio may be limited by, among other things, economic conditions, competition within our market areas, the timing of loan repayments and seasonality.

Our ability to continue to improve our operating results is dependent upon, among other things, growing our loan portfolio. While we believe that our strategy to grow our loan portfolio is sound and our growth targets are achievable over an extended period of time, competition within our market areas is significant, particularly for borrowers whose businesses have been less negatively impacted by the challenging economic conditions of the last few years. We compete with both large regional and national financial institutions, who are sometimes able to offer more attractive interest rates and other financial terms than we choose to offer, as well as other community-based banks who seek to offer a similar level of service to that which we offer. This competition can make loan growth challenging, particularly if we are unwilling to price loans at levels that would cause unacceptable levels of compression of our net interest margin or if we are unwilling to structure a loan in a manner that we believe results in a level of risk to us that we are not willing to accept. Moreover, loan growth throughout the year can fluctuate due in part to seasonality of the businesses of our borrowers and potential borrowers and the timing on loan repayments, particularly those of our borrowers with significant relationships with us, resulting from, among other things, excess levels of liquidity. To the extent that we are unable to increase loans, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.

Our financial performance will be negatively impacted if we are unable to execute our growth strategy.

Our current growth strategy is to grow organically and supplement that growth with select acquisitions. Our ability to grow organically depends primarily on generating loans and deposits of acceptable risk and expense, and we may not be successful in

continuing this organic growth. Our ability to identify appropriate markets for expansion, recruit and retain qualified personnel, and fund growth at a reasonable cost depends upon prevailing economic conditions, maintenance of sufficient capital, competitive factors, and changes in banking laws, among other factors. Conversely, if we grow too quickly and are unable to control costs and maintain asset quality, such growth, whether organic or through select acquisitions, could materially and adversely affect our financial condition and results of operations.

We may not be able to identify and acquire other financial institutions, which could hinder our ability to continue to grow.

A substantial part of our historical growth has been a result of acquisitions of other financial institutions. We intend to continue our strategy of evaluating and selectively acquiring other financial institutions that serve customers or markets we find desirable. However, the market for acquisitions remains highly competitive, and we may be unable to find satisfactory acquisition candidates in the future that fit our acquisition strategy. To the extent that we are unable to find suitable acquisition candidates, an important component of our strategy may be lost. If we are able to identify attractive acquisition opportunities, we must generally satisfy a number of conditions prior to completing any such transaction, including certain bank regulatory approval, which has become substantially more difficult, time-consuming and unpredictable as a result of the recent financial crisis. Additionally, any future acquisitions may not produce the revenue, earnings or synergies that we anticipated.

Our strategy of pursuing acquisitions exposes us to financial, execution, compliance and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We intend to continue pursuing a strategy that includes acquisitions. An acquisition strategy involves significant risks, including the following:

- finding suitable candidates for acquisition;
- attracting funding to support additional growth within acceptable risk tolerances;
- maintaining asset quality;
- retaining customers and key personnel, including bankers;
- obtaining necessary regulatory approvals, which we may have difficulty obtaining or be unable to obtain;
- conducting adequate due diligence and managing known and unknown risks and uncertainties;
- integrating acquired businesses; and
- maintaining adequate regulatory capital.

The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. We face significant competition in pursuing acquisition targets from other banks and financial institutions, many of which possess greater financial, human, technical and other resources than we do. Our ability to compete in acquiring target institutions will depend on our available financial resources to fund the acquisitions, including the amount of cash and cash equivalents we have and the liquidity and market price of our Class A common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition opportunities. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized.

Acquisitions of financial institutions also involve operational risks and uncertainties, such as unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers, and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, we may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that we acquire or to realize our attempts to eliminate redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Failure to successfully integrate the entities we acquire into our existing operations in a timely manner may increase our operating costs significantly and adversely affect our business, financial condition and results of operations. Further, acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition, and the carrying amount of any goodwill that we currently maintain or may acquire may be subject to impairment in future periods.

If we continue to grow, we will face risks arising from our increased size. If we do not manage such growth effectively, we may be unable to realize the benefit from the investments in technology, infrastructure and personnel that we have made to support our

expansion. In addition, we may incur higher costs and realize less revenue growth than we expect, which would reduce our earnings and diminish our future prospects, and we may not be able to continue to implement our business strategy and successfully conduct our operations. Risks associated with failing to maintain effective financial and operational controls as we grow, such as maintaining appropriate loan underwriting procedures, information technology systems, determining adequate allowances for loan losses and complying with regulatory accounting requirements, including increased loan losses, reduced earnings and potential regulatory penalties and restrictions on growth, all could have a negative effect on our business, financial condition and results of operations.

Acquisitions may disrupt our business and dilute stockholder value, and integrating acquired companies may be more difficult, costly, or time-consuming than we expect.

Our pursuit of acquisitions may disrupt our business, and any equity that we issue as merger consideration may have the effect of diluting the value of common stockholders. In addition, we may fail to realize some or all of the anticipated benefits of completed acquisitions. We anticipate that the integration of businesses that we may acquire in the future will be a time-consuming and expensive process, even if the integration process is effectively planned and implemented.

In addition, our acquisition activities could be material to our business and involve a number of significant risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target company or the assets and liabilities that we seek to acquire;
- exposure to potential asset quality issues of the target company;
- intense competition from other banking organizations and other potential acquirers, many of which have substantially greater resources than we do;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including, without limitation, liabilities for regulatory and compliance issues;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits of the acquisition;
- incurring time and expense required to integrate the operations and personnel of the combined businesses;
- inconsistencies in standards, procedures, and policies that would adversely affect our ability to maintain relationships with customers and employees;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key employees and customers;
- significant problems relating to the conversion of the financial and customer data of the entity;
- integration of acquired customers into our financial and customer product systems;
- potential changes in banking or tax laws or regulations that may affect the target company; or
- risks of impairment to goodwill.

If difficulties arise with respect to the integration process, the economic benefits expected to result from acquisitions might not occur. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to move their business to other financial institutions. Failure to successfully integrate businesses that we acquire could have an adverse effect on our profitability, return on equity, return on assets, or our ability to implement our strategy, any of which in turn could have a material adverse effect on our business, financial condition, and results of operations.

Our largest loan relationships currently make up a material percentage of our total loan portfolio.

As of December 31, 2018, our ten largest loan relationships totaled over $240.3 million in loan exposure, or 9.3% of the total loan portfolio. The concentration risk associated with having a small number of large loan relationships is that, if one or more of these relationships were to become delinquent or suffer default, we could be at serious risk of material losses. The allowance for loan losses

may not be adequate to cover losses associated with any of these relationships, and any loss or increase in the allowance would negatively affect our earnings and capital. Even if the loans are collateralized, the large increase in classified assets could harm our reputation with our regulators, investors and potential investors and inhibit our ability to execute our business plan.

Several of our large depositors have relationships with each other, which creates a higher risk that one customer's withdrawal of its deposit could lead to a loss of other deposits from customers within the relationship, which, in turn, could force us to fund our business through more expensive and less stable sources.

As of December 31, 2018, our ten largest non-brokered depositors accounted for $322.5 million in deposits, or approximately 10.3% of our total deposits. Further, our non-brokered deposit account balance was $2.97 billion, or approximately 95.1% of our total deposits, as of December 31, 2018. Several of our large depositors have business, family, or other relationships with each other, which creates a risk that any one customer's withdrawal of its deposit could lead to a loss of other deposits from customers within the relationship.

Withdrawals of deposits by any one of our largest depositors or by one of our related customer groups could force us to rely more heavily on borrowings and other sources of funding for our business and withdrawal demands, adversely affecting our net interest margin and results of operations. We may also be forced, as a result of any withdrawal of deposits, to rely more heavily on other, potentially more expensive and less stable funding sources. Consequently, the occurrence of any of these events could have a material adverse effect on our business, results of operations, financial condition, and future prospects.

Our future profitability levels are dependent on our ability to grow and maintain deposits at competitive costs.

Our ability to fund our lending and investing activities at a reasonable cost depends on our ability to maintain adequate deposit levels at an economically competitive cost structure. The following risks could impact the cost structures of deposits:

- Increased competition over transactional and time deposit accounts could increase the costs of these deposits by increasing the rate of change and velocity of change in deposit rates, as overall market rates change;
- Migration of transactional deposit accounts to time deposit accounts could increase the overall costs of deposits; and
- Changes in the mix of retail and public funds deposit customers could increase the costs of deposits. Public funds deposits are more rate sensitive than retail deposits and if we are forced to rely more heavily on those types of deposits overall funding cost could increase.

Our ability to retain bankers and recruit additional successful bankers is critical to the success of our business strategy and any failure to do so could adversely affect our business, financial condition, results of operations and growth prospects.

Our ability to retain and grow our loans, deposits and fee income depends upon the business generation capabilities, reputation and relationship management skills of our bankers. If we were to lose the services of any of our bankers, including successful bankers employed by banks that we may acquire, to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services.

Our growth strategy also relies on our ability to attract and retain additional profitable bankers. We may face difficulties in recruiting and retaining bankers of our desired caliber, including as a result of competition from other financial institutions. In particular, many of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, we may incur significant expenses and expend significant time and resources on training, integration and business development before we are able to determine whether a new banker will be profitable or effective. If we are unable to attract and retain successful bankers, or if our bankers fail to meet our expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy and our business, financial condition, results of operations and growth prospects may be adversely affected.

Any expansion into new markets or new lines of business might not be successful.

As part of our ongoing strategic plan, we may consider expansion into new geographic markets. Such expansion might take the form of the establishment of de novo branches or the acquisition of existing banks or bank branches. There are considerable costs associated with opening new branches and new branches generally do not generate sufficient revenues to offset costs until they have been in operation for some time. Additionally, we may consider expansion into new lines of business through the acquisition of third parties or organic growth and development. There are substantial risks associated with such efforts, including risks that (i) revenues from such activities might not be sufficient to offset the development, compliance, and other implementation costs, (ii) competing products and services and shifting market preferences might affect the profitability of such activities, and (iii) our internal controls

might be inadequate to manage the risks associated with new activities. Furthermore, it is possible that our unfamiliarity with new markets or lines of business might adversely affect the success of such actions. If any such expansions into new geographic or product markets are not successful, there could be an adverse effect on our financial condition and results of operations.

Our small to medium-sized business and entrepreneurial customers may have fewer financial resources than larger entities to weather a downturn in the economy that might impair a borrower's ability to repay a loan and could adversely affect our financial condition and results of operations.

We focus our business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses and entrepreneurs. These small to medium-sized businesses and entrepreneurs may have fewer financial resources in terms of capital or borrowing capacity than larger entities. If economic conditions negatively impact our markets generally, and small to medium-sized businesses are adversely affected, our financial condition and results of operations may be negatively affected.

In our business, we must effectively manage our credit risk.

As a lender, we are exposed to the risk that our loan customers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. We may experience significant loan losses, which could have a material adverse effect on our operating results and financial condition. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the diversification by industry of our commercial loan portfolio, the amount of nonperforming loans and related collateral, the volume, growth and composition of our loan portfolio, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers and the evaluation of our loan portfolio through our internal loan review process and other relevant factors.

We maintain an allowance for credit losses, which is an allowance established through a provision for loan losses charged to expense that represents management's best estimate of probable incurred losses in our loan portfolio. Additional credit losses will likely occur in the future and may occur at a rate greater than we have experienced to date. In determining the amount of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. If our assumptions, including our qualitative factors, prove to be incorrect, our current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. In addition, as an acquirer of other banks, our allowance for loan losses may not be sufficient when coupled with purchase discounts on acquired portfolios. Material additions to the allowance could materially decrease our net income.

In addition, banking regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further charge-offs, based on judgments different than those of our management. Any increase in our allowance for credit losses or charge-offs as required by these regulatory agencies could have a material negative effect on our operating results, financial condition and liquidity.

We may not be able to adequately measure and limit the credit risk associated with our loan portfolio, which could adversely affect our profitability.

As a part of the products and services that we offer, we make commercial and commercial real estate loans. The principal economic risk associated with each class of loans is the creditworthiness of the borrower, which is affected by the strength of the relevant business market segment, local market conditions, and general economic conditions. Additional factors related to the credit quality of commercial loans include the quality of the management of the business and the borrower's ability both to properly evaluate changes in the supply and demand characteristics affecting our market for products and services, and to effectively respond to those changes. Additional factors related to the credit quality of commercial real estate loans include tenant vacancy rates and the quality of management of the property. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have an adverse effect on our business, financial condition, and results of operations.

External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Board of Governors of the Federal Reserve System, or the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. The primary impact of inflation on our operations most likely will be reflected in increased operating costs. Conversely, deflation generally will tend to erode collateral values and diminish loan quality. Virtually all of our assets and liabilities are monetary in

nature. As a result, interest rates have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services.

Our profitability is vulnerable to interest rate fluctuations.

Our profitability depends substantially upon our net interest income. Net interest income is the difference between the interest earned on assets (such as loans and securities held in our investment portfolio) and the interest paid for liabilities (such as interest paid on savings and money market accounts and time deposits). Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by fluctuations in interest rates. The magnitude and duration of changes in interest rates are events over which we have no control, and such changes may have an adverse effect on our net interest income. Prepayment and early withdrawal levels, which are also impacted by changes in interest rates, can significantly affect our assets and liabilities. For example, an increase in interest rates could, among other things, reduce the demand for loans and decrease loan repayment rates. Such an increase could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations, which could in turn lead to an increase in nonperforming assets and net charge-offs. Conversely, a decrease in the general level of interest rates could affect us by, among other things, leading to greater competition for deposits and incentivizing borrowers to prepay or refinance their loans more quickly or frequently than they otherwise would. The primary tool that management uses to measure interest rate risk is a simulation model that evaluates the impact of varying levels of prevailing interest rates and the impact on net interest income and the economic value of equity. Generally, the interest rates on our interest-earning assets and interest-bearing liabilities do not change at the same rate, to the same extent or on the same basis. Even assets and liabilities with similar maturities or re-pricing periods may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities may fluctuate in advance of changes in general market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in general market rates. Certain assets, such as fixed and adjustable rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the asset. Changes in interest rates could materially and adversely affect our financial condition and results of operations. See "Item 7A – Quantitative and Qualitative Disclosure About Market Risk" for a discussion of interest rate risk modeling and the inherent risks in modeling assumptions.

Market interest rates for loans, investments and deposits are highly sensitive to many factors beyond our control.

Generally, interest rate spreads (the difference between interest rates earned on assets and interest rates paid on liabilities) have narrowed in recent years as a result of changing market conditions, policies of various government and regulatory authorities, and competitive pricing pressures, and we cannot predict whether these rate spreads will narrow even further. This narrowing of interest rate spreads could adversely affect our financial condition and results of operations. In addition, we cannot predict whether interest rates will continue to remain at present levels. Changes in interest rates may cause significant changes, up or down, in our net interest income.

We attempt to minimize the adverse effects of changes in interest rates by structuring our asset-liability composition in order to obtain the maximum spread between interest income and interest expense. However, there can be no assurance that we will be successful in minimizing the adverse effects of changes in interest rates. Depending on our portfolio of loans and investments, our financial condition and results of operations may be adversely affected by changes in interest rates.

We may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We occasionally have loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

We could suffer losses from a decline in the credit quality of the assets that we hold.

We could sustain losses if borrowers, guarantors, and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies that we believe are appropriate to minimize this risk, including the establishment and review of the allowance for credit losses, periodic assessment of the likelihood of nonperformance, tracking loan performance, and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our financial condition and results of operations. In particular, we face credit quality risks presented by past, current, and potential economic and real estate market conditions.

Federal income tax reform could have unforeseen effects on our financial condition and results of operations.

On December 22, 2017, the President of the United States signed into law H.R. 1, originally known as the "Tax Cuts and Jobs Act." The Tax Cuts and Jobs Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. There are also provisions that may partially offset the benefit of such rate reduction through the elimination of deductions allowed under prior law. Financial statement impacts in 2017 principally included the re-measurement of the Company's net deferred tax asset, which resulted in a $1.2 million re-measurement charge being recognized in income tax expense. While there are benefits of the lower corporate tax rate beginning in 2018, there is also substantial uncertainty regarding the details of U.S. Tax Reform. The intended and unintended consequences of the Tax Cuts and Jobs Act on our business and on holders of our common shares is uncertain and could be adverse. The Company anticipates that the impact of the Tax Cuts and Jobs Act may be material to our business, financial condition and results of operations.

Changes in economic conditions could cause an increase in delinquencies and nonperforming assets, including loan charge-offs, which could depress our net income and growth.

Our loan portfolio includes many real estate secured loans, demand for which may decrease during economic downturns as a result of, among other things, an increase in unemployment, a decrease in real estate values and, a slowdown in housing. If we see negative economic conditions develop in the United States as a whole or our Arkansas, Kansas, Missouri and Oklahoma markets, we could experience higher delinquencies and loan charge-offs, which would reduce our net income and adversely affect our financial condition. Furthermore, to the extent that real estate collateral is obtained through foreclosure, the costs of holding and marketing the real estate collateral, as well as the ultimate values obtained from disposition, could reduce our earnings and adversely affect our financial condition.

The value of real estate collateral may fluctuate significantly resulting in an under-collateralized loan portfolio.

The market value of real estate, particularly real estate held for investment, can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan portfolio could become under-collateralized. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. This could have a material adverse effect on our provision for loan losses and our operating results and financial condition.

A significant portion of our loan portfolio is secured by real estate and events that negatively impact the real estate market could negatively impact our business.

There are significant risks associated with real estate-based lending. Real estate collateral may deteriorate in value during the time that credit is extended, in which case we might not be able to sell such collateral for an amount necessary to satisfy a defaulting borrower's obligation to us. In that event, there could be a material adverse effect on our financial condition and results of operations. Additionally, commercial real estate loans are subject to unique risks. These types of loans are often viewed as having more risks than residential real estate or other consumer loans, primarily because relatively large amounts are loans to a relatively small number of borrowers. Thus, the deterioration of even a small number of these loans could cause a significant increase in the loan loss allowance or loan charge-offs, which in turn could have a material adverse effect on our financial condition and results of operations. Furthermore, commercial real estate loans depend on cash flows from the property securing the debt. Cash flows may be affected significantly by general economic conditions and a downturn in a local economy in one of our markets or in occupancy rates where a property is located could increase the likelihood of default.

The foregoing risks are enhanced as a result of the limited geographic scope of our principal markets. Most of the real estate securing our loans is located in our Arkansas, Kansas, Missouri and Oklahoma markets. Because the value of this collateral depends upon local real estate market conditions and is affected by, among other things, neighborhood characteristics, real estate tax rates, the cost of operating the properties, and local governmental regulation, adverse changes in any of these factors in our markets could cause

a decline in the value of the collateral securing a significant portion of our loan portfolio. Further, the concentration of real estate collateral in these four markets limits our ability to diversify the risk of such occurrences.

A large portion of our loan portfolio is comprised of commercial loans that are secured by accounts receivable, inventory, equipment or other asset-based collateral and deterioration in the value of such collateral could increase our exposure to future probable losses.

These commercial loans are typically larger in amount than loans to individuals, and therefore, have the potential for larger losses on a single loan basis. Additionally, asset-based borrowers are often highly leveraged and have inconsistent historical earnings and cash flows. Historically, losses in our commercial credits have been higher than losses in other classes of our loan portfolio. Significant adverse changes in our borrowers' industries and businesses could cause rapid declines in values of, and collectability associated with, those business assets, which could result in inadequate collateral coverage for our commercial loans and expose us to future losses. An increase in specific reserves and charge-offs related to our commercial loan portfolio could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our use of appraisals in deciding whether to make a loan secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property, we generally require an appraisal. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

A portion of our loan portfolio is comprised of participation and syndicated transaction interests, which could have an adverse effect on our ability to monitor the lending relationships and lead to an increased risk of loss.

We participate in loans originated by other institutions and in syndicated transactions (including shared national credits) in which other lenders serve as the agent bank. Our reduced control over the monitoring and management of these relationships, particularly participations in large bank groups, could lead to increased risk of loss, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

A lack of liquidity could adversely affect our financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities, and proceeds from the issuance and sale of our equity securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Home Loan Bank of Topeka. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our markets or by one or more adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

As a bank holding company, the sources of funds available to us are limited.

Any future constraints on liquidity at the holding company level could impair our ability to declare and pay dividends on our Class A common stock. In some instances, notice to, or approval from, the Federal Reserve may be required prior to our declaration or payment of dividends. Further, our operations are primarily conducted by our subsidiary, Equity Bank, which is subject to significant regulation. Federal and state banking laws restrict the payment of dividends by banks to their holding companies, and

Equity Bank will be subject to these restrictions in paying dividends to us. Because our ability to receive dividends or loans from Equity Bank is restricted, our ability to pay dividends to our stockholders is also restricted.

Additionally, the right of a bank holding company to participate in the assets of its subsidiary bank in the event of a bank-level liquidation or reorganization is subject to the claims of the bank's creditors, including depositors, which take priority, except to the extent that the holding company may be a creditor with a recognized claim.

We operate in a highly competitive industry and face significant competition from other financial institutions and financial services providers that could decrease our growth or profits.

Consumer and commercial banking are highly competitive industries. Our market areas contain not only a large number of community and regional banks, but also a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, as well as savings and loan associations, savings banks, and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, commercial finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds, and several government agencies, as well as major retailers, all actively engaged in providing various types of loans and other financial services. Some of these competitors may have a long history of successful operations in our market areas and greater ties to local businesses and more expansive banking relationships, as well as more established depositor bases, fewer regulatory constraints, and lower cost structures than we do. Competitors with greater resources may possess an advantage through their ability to maintain numerous banking locations in more convenient sites, to conduct more extensive promotional and advertising campaigns, or to operate a more developed technology platform. Due to their size, many competitors may offer a broader range of products and services, as well as better pricing for certain products and services than we can offer. For example, in the current low interest rate environment, competitors with lower costs of capital may solicit our customers to refinance their loans with a lower interest rate. Further, increased competition among financial services companies due to the recent consolidation of certain competing financial institutions may adversely affect our ability to market our products and services. Technology has lowered barriers to entry and made it possible for banks to compete in our market areas without a retail footprint by offering competitive rates, and for non-banks to offer products and services traditionally provided by banks.

The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking.

Our ability to compete successfully depends on a number of factors, including:

- our ability to develop, maintain, and build upon long-term customer relationships based on quality service and high ethical standards;
- our ability to attract and retain qualified employees to operate our business effectively;
- our ability to expand our market position;
- the scope, relevance, and pricing of products and services that we offer to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could harm our business, financial condition, and results of operations.

As a community bank, our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers, and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Further, negative public opinion can expose us to litigation and regulatory action as we seek to implement our growth strategy.

As a community banking institution, we have lower lending limits and different lending risks than certain of our larger, more diversified competitors.

We are a community banking institution that provides banking services to the local communities in the market areas in which we operate. Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to individuals and to small to medium-sized businesses, which may expose us to greater lending risks than those of banks that lend to larger, better-capitalized businesses with longer operating histories. In addition, our legally mandated lending limits are lower than those of certain of our competitors that have more capital than we do. These lower lending limits may discourage borrowers with lending needs that exceed our limits from doing business with us. We may try to serve such borrowers by selling loan participations to other financial institutions; however, this strategy may not succeed.

Our financial projections are based upon numerous assumptions about future events and our actual financial performance may differ materially from our projections if our assumptions are inaccurate.

If the communities in which we operate do not grow, or if the prevailing economic conditions locally or nationally are less favorable than we have assumed, then our ability to reduce our nonperforming loans and other real estate owned portfolios and to implement our business strategies may be adversely affected, and our actual financial performance may be materially different from our projections.

Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our market areas even if they do occur. If our senior management team is unable to provide the effective leadership necessary to implement our strategic plan, our actual financial performance may be materially adversely different from our projections. Additionally, to the extent that any component of our strategic plan requires regulatory approval, if we are unable to obtain necessary approval, we will be unable to completely implement our strategy, which may adversely affect our actual financial results. Our inability to successfully implement our strategic plan could adversely affect the price of our Class A common stock.

Volatility in commodity prices may adversely affect our financial condition and results of operations.

In addition to the geographic concentration of our markets, certain industry-specific economic factors also affect us. For example, while we do not have a concentration in energy lending, the industry is cyclical and recently has experienced a significant drop in crude oil and natural gas prices. In addition, we make loans to customers involved in the agricultural industry, many of whom are also impacted by fluctuations in commodity prices. Volatility in commodity prices could adversely impact the ability of borrowers in these industries to perform under the terms of their borrowing arrangements with us, and as a result, a severe and prolonged decline in commodity prices may adversely affect our financial condition and results of operations. It is also difficult to project future commodity prices as they are dependent upon many different factors beyond our control.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate, or fraudulent information.

We are subject to environmental risk in our lending activities.

Because a significant portion of our loan portfolio is secured by real property, we may foreclose upon and take title to such property in the ordinary course of business. If hazardous substances are found on such property, we could be liable for remediation costs, as well as for personal injury and property damage. Environmental laws might require us to incur substantial expenses, materially reduce the property's value, or limit our ability to use or sell the property. Although management has policies requiring environmental reviews before loans secured by real property are made and before foreclosure is commenced, it is still possible that environmental risks might not be detected and that the associated costs might have a material adverse effect on our financial condition and results of operations.

We continually encounter technological change and may have fewer resources than our competitors to continue to invest in technological improvements.

The banking and financial services industries are undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to enhancing the level of service provided to customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that enhance customer convenience and create additional efficiencies in operations. Many of our competitors have greater resources to invest in technological improvements, and we may not be able to effectively implement new technology-driven products and services, which could reduce our ability to effectively compete.

Our information systems may experience a failure or interruption.

We rely heavily on communications and information systems to conduct our business. Any failure or interruption in the operation of these systems could impair or prevent the effective operation of our customer relationship management, general ledger, deposit, lending, or other functions. While we have policies and procedures designed to prevent or limit the effect of a failure or interruption in the operation of our information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions impacting our information systems could damage our reputation, result in a loss of customer business, and expose us to additional regulatory scrutiny, civil litigation, and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We use information technology in our operations and offer online banking services to our customers and unauthorized access to our or our customers' confidential or proprietary information as a result of a cyber attack or otherwise could expose us to reputational harm and litigation and adversely affect our ability to attract and retain customers.

Information security risks for financial institutions have generally increased in recent years, in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. The financial services industry has seen increases in electronic fraudulent activity, hacking, security breaches, sophisticated social engineering and cyber attacks, including in the commercial banking sector, as cyber criminals have been targeting commercial bank and brokerage accounts on an increasing basis. We are under continuous threat of loss due to fraudulent activity, hacking and cyber attacks, especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cyber criminals and hackers, our plans to continue to provide internet banking and mobile banking channels and our plans to develop additional remote connectivity solutions to serve our customers. Therefore, the secure processing, transmission and storage of information in connection with our online banking services are critical elements of our operations. However, our network could be vulnerable to unauthorized access, computer viruses and other malware, phishing schemes or other security failures. In addition, our customers may use personal smartphones, tablet PCs or other mobile devices that are beyond our control systems in order to access our products and services. Our technologies, systems and networks and our customers' devices, may become the target of cyber attacks, electronic fraud or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations. As cyber threats continue to evolve, we may be required to spend significant capital and other resources to protect against these threats or to alleviate or investigate problems caused by such threats. Our business relies on the secure processing, storage, transmission and retrieval of confidential customer information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties, and any breaches or unauthorized access to such information could present significant regulatory costs and expose us to litigation and other possible liabilities. Any inability to prevent these types of security threats could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and ability to generate deposits. While we have not experienced any material losses relating to cyber attacks or other information security breaches to date, we may suffer such losses in the future. The occurrence of any cyber attack or information security breach could result in financial losses or increased costs to us or our clients, disclosure or misuse of confidential information belonging to us or personal or confidential information belonging to our clients, misappropriation of assets, reputational damage, damage to our competitive position and the disruption of our operations, all of which could adversely affect our financial condition or results of operations.

In addition to well known risks related to fraudulent activity, which take many forms, such as check "kiting" or fraud, wire fraud, and other dishonest acts, information security breaches and cybersecurity-related incidents have become a material risk in the financial services industry. These threats may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our clients, electronic identity theft, "phishing", account takeover, denial or degradation of service attacks and malware or other cyber attacks. These electronic viruses or malicious code are typically designed to, among other things:

- obtain unauthorized access to confidential information belonging to us or our clients and customers;
- manipulate or destroy data;
- disrupt, sabotage or degrade service on a financial institution's systems; or
- steal money.

In recent periods, several governmental agencies and large corporations, including financial service organizations and retail companies, have suffered major data breaches, in some cases exposing not only their confidential and proprietary corporate information, but also sensitive financial and other personal information of their clients or clients and their employees or other third parties and subjecting those agencies and corporations to potential fraudulent activity and their clients, clients and other third parties to identity theft and fraudulent activity in their credit card and banking accounts. Therefore, security breaches and cyber-attacks can cause significant increases in operating costs, including the costs and capital expenditures required to correct the deficiencies in and strengthen the security of data processing and storage systems.

Unfortunately, it is not always possible to anticipate, detect, or recognize these threats to our systems, or to implement effective preventative measures against all breaches, whether those breaches are malicious or accidental. Cybersecurity risks for banking organizations have significantly increased in recent years and have been difficult to detect before they occur because, among other reasons:

- the proliferation of new technologies and the use of the Internet and telecommunications technologies to conduct financial transactions;
- these threats arise from numerous sources, not all of which are in our control, including among others, human error, fraud or malice on the part of employees or third parties, accidental technological failure, electrical or telecommunication outages, failures of computer servers or other damage to our property or assets, natural disasters or severe weather conditions, health emergencies or pandemics, or outbreaks of hostilities or terrorist acts;
- the techniques used in cyber attacks change frequently and may not be recognized until launched or until well after the breach has occurred;
- the increased sophistication and activities of organized crime groups, hackers, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage;
- the vulnerability of systems to third parties seeking to gain access to such systems either directly or using equipment or security passwords belonging to employees, customers, third-party service providers or other users of our systems; and
- our frequent transmission of sensitive information to, and storage of such information by, third parties, including our vendors and regulators, and possible weaknesses that go undetected in our data systems notwithstanding the testing we conduct of those systems.

Although to date we have not experienced any losses or other material consequences relating to technology failure, cyber attacks or other information, we may suffer such losses or other consequences in the future. While we invest in systems and processes that are designed to detect and prevent security breaches and cyber attacks and we conduct periodic tests of our security systems and processes, we may not succeed in anticipating or adequately protecting against or preventing all security breaches and cyber attacks from occurring. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks are becoming more sophisticated and are extremely difficult to prevent. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner. Further, we may not be able to insure against losses related to cyber threats. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents.

As is the case with non-electronic fraudulent activity, cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business. A successful penetration or circumvention of system security could cause us negative consequences, including loss of customers and business opportunities, disruption to our operations and business, misappropriation or

destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could expose us to additional regulatory scrutiny and result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition.

We are dependent upon outside third parties for the processing and handling of our records and data.

We rely on software developed by third-party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, loan and deposit processing and securities portfolio accounting. While we perform a review of controls instituted by the applicable vendors over these programs in accordance with industry standards and perform our own testing of user controls, we must rely on the continued maintenance of controls by these third-party vendors, including safeguards over the security of customer data. In addition, we maintain, or contract with third parties to maintain, daily backups of key processing outputs in the event of a failure on the part of any of these systems. Nonetheless, we may incur a temporary disruption in our ability to conduct business or process transactions, or incur damage to our reputation, if the third-party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such a disruption or breach of security may have a material adverse effect on our business.

We are subject to losses due to the errors or fraudulent behavior of employees or third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical record-keeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially adversely affected if someone causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. When we originate loans, we rely upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal and title information, if applicable, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation. Any of these occurrences could result in a diminished ability of us to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could negatively impact our business, financial condition and results of operations.

If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including credit, liquidity, operational, regulatory compliance and reputational. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. For example, the recent financial and credit crisis and resulting regulatory reform highlighted both the importance and some of the limitations of managing unanticipated risks. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators, outside auditors or management) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict, and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

A new accounting standard will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL")

model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current general accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

The new CECL standard will become effective for us the fiscal year beginning after December 15, 2019, and for interim periods within those fiscal years. We are currently evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our business, financial condition and results of operations.

Adverse weather or man-made events could negatively affect our markets or disrupt our operations, which could have an adverse effect upon our business and results of operations.

A significant portion of our business is generated in our Arkansas, Kansas, Missouri and Oklahoma markets, which have been, and may continue to be, susceptible to natural disasters, such as tornadoes, droughts, floods and other severe weather events. These natural disasters could negatively impact regional economic conditions, cause a decline in the value or destruction of mortgaged properties and increase the risk of delinquencies, foreclosures, or loss on loans originated by us, damage our banking facilities and offices and negatively impact our growth strategy. Such weather events could disrupt operations, result in damage to properties, and negatively affect the local economies in the markets where we operate. We cannot predict whether or to what extent damage that may be caused by future weather or man-made events will affect our operations or the economies in our current or future market areas, but such events could negatively impact economic conditions in these regions and result in a decline in local loan demand and loan originations, a decline in the value or destruction of properties securing our loans and an increase in delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of natural or man-made disasters. Further, severe weather, natural disasters, acts of war or terrorism and other external events could adversely affect us in a number of ways, including an increase in delinquencies, bankruptcies or defaults that could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses. Such risks could also impair the value of collateral securing loans and hurt our deposit base.

We are or may become involved from time to time in suits, legal proceedings, information-gathering requests, investigations and proceedings by governmental and self-regulatory agencies that may lead to adverse consequences.

Many aspects of our business involve substantial risk of legal liability. We have been named or threatened to be named as defendants in various lawsuits arising from our business activities (and in some cases from the activities of companies that we have acquired), including, but not limited to, consumer residential real estate mortgages. In addition, from time to time, we are, or may become, the subject of governmental and self-regulatory agency information-gathering requests, reviews, investigations and proceedings, and other forms of regulatory inquiry, including by bank regulatory agencies, the Consumer Financial Protection Bureau, the SEC, and law enforcement authorities. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions, restrictions on the way in which we conduct our business or reputational harm.

We are subject to claims and litigation pertaining to intellectual property.

We rely on technology companies to provide information technology products and services necessary to support our day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of our vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to us by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, we may have to engage in litigation that could be expensive, time-consuming, disruptive to our operations, and

distracting to management. If we are found to infringe one or more patents or other intellectual property rights, we may be required to pay substantial damages or royalties to a third-party. In certain cases, we may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase our operating expenses. If legal matters related to intellectual property claims were resolved against us or settled, we could be required to make payments in amounts that could have a material adverse effect on our business, financial condition and results of operations.

If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired it could require charges to earnings, which would adversely affect our business, financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired.

Our goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared to its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. While we have not recorded any impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of our existing goodwill or goodwill we may acquire in the future will not result in findings of impairment and related write-downs, which could adversely affect our business, financial condition and results of operations.

We have pledged all of the stock of Equity Bank as collateral for a loan and if the lender forecloses, you could lose your investment.

We have pledged all of the stock of Equity Bank as collateral for a third-party loan, which had a balance of $15.5 million as of December 31, 2018. This loan has a maximum lending commitment of $40.0 million. If we were to default on this indebtedness, the lender of such loan could foreclose on Equity Bank's stock and we would lose our principal asset. In that event, if the value of Equity Bank's stock is less than the amount of the indebtedness, you would lose the entire amount of your investment.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including government-sponsored enterprises, about the mortgage loans and the manner in which they were originated. We may be required to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan. With respect to loans that are originated through Equity Bank or correspondent channels, the remedies available against the originating broker or correspondent, if any, may not be as broad as the remedies available to purchasers, guarantors and insurers of mortgage loans against us. We face further risk that the originating broker or correspondent, if any, may not have financial capacity to perform remedies that otherwise may be available. Therefore, if a purchaser, guarantor or insurer enforces its remedies against us, we may not be able to recover losses from the originating broker or correspondent. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

Risks Related to the Regulation of Our Industry

We are subject to extensive regulation in the conduct of our business, which imposes additional costs on us and adversely affects our profitability.

As a bank holding company, we are subject to federal regulation under the Bank Holding Company Act of 1956, as amended, or the BHC Act, and the examination and reporting requirements of the Federal Reserve. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules, and standards, may limit our operations significantly and control the methods by which we conduct business, as they limit those of other banking organizations. Banking regulations are primarily intended to protect depositors, deposit insurance funds and the banking system as a whole and not stockholders or other creditors. These regulations affect lending practices, capital structure, investment practices, dividend policy and overall growth, among other things. For example, federal and state consumer protection laws and regulations limit the manner in which we may offer and extend credit. In

addition, the laws governing bankruptcy generally favor debtors, making it more expensive and more difficult to collect from customers who become subject to bankruptcy proceedings.

We also may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with applicable laws and regulations, particularly as a result of regulations adopted under the Dodd-Frank Act. This allocation of resources, as well as any failure to comply with applicable requirements, may negatively impact our financial condition and results of operations.

Changes in laws, government regulation, and monetary policy may have a material effect on our results of operations.

Financial institutions have been the subject of significant legislative and regulatory changes and may be the subject of further significant legislation or regulation in the future, none of which is within our control. New proposals for legislation continue to be introduced in the United States Congress that could further substantially increase regulation of the bank and non-bank financial services industries, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings, and disclosures and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Changes to statutes, regulations, or regulatory policies, including changes in their interpretation or implementation by regulators, could affect us in substantial and unpredictable ways. Such changes could, among other things, subject us to additional costs and lower revenues, limit the types of financial services and products that we may offer, ease restrictions on non-banks and thereby enhance their ability to offer competing financial services and products, increase compliance costs and require a significant amount of management's time and attention. Failure to comply with statutes, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties or reputational damage, each of which could have a material adverse effect on our business, financial condition and results of operations.

Banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations could materially and adversely affect us.

We are subject to supervision and regulation by federal and state banking agencies that periodically conduct examinations of our business, including compliance with laws and regulations – specifically, our subsidiary, Equity Bank, is subject to examination by the Federal Reserve and the OSBC, and we are subject to examination by the Federal Reserve. Accommodating such examinations may require management to reallocate resources, which would otherwise be used in the day-to-day operation of other aspects of our business. If, as a result of an examination, any such banking agency was to determine that the financial condition, capital resources, allowance for loan losses, asset quality, earnings prospects, management, liquidity, or other aspects of our operations had become unsatisfactory, or that we or our management were in violation of any law or regulation, such banking agency may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against us, our officers, or directors, to remove officers and directors, and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such a regulatory action, it could have a material adverse effect on our business, financial condition and results of operations.

Our banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect our earnings.

As a member institution of the FDIC, our banking subsidiary, Equity Bank, is assessed a quarterly deposit insurance premium. We are generally unable to control the amount of premiums or special assessments that Equity Bank is required to pay, future bank failures may stress the Deposit Insurance Fund and prompt the FDIC to increase its premiums or to issue special assessments. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on our results of operations, financial condition and our ability to continue to pay dividends on our common stock at the current rate or at all.

We are subject to certain capital requirements by regulators.

Applicable regulations require us to maintain specific capital standards in relation to the respective credit risks of our assets and off-balance sheet exposures. Various components of these requirements are subject to qualitative judgments by regulators. We maintain a "well capitalized" status under the current regulatory framework. Our failure to maintain a "well capitalized" status could affect our customers' confidence in us, which could adversely affect our ability to do business. In addition, failure to maintain such

status could also result in restrictions imposed by our regulators on our growth and other activities. Any such effect on customers or restrictions by our regulators could have a material adverse effect on our financial condition and results of operations.

We are subject to stringent capital requirements, which may adversely impact our return on equity or constrain us from paying dividends or repurchasing shares.

In July 2013, the federal banking agencies published the final Basel III rules (as defined in "Item 1 – Business – Supervision and Regulation – Bank Holding Company Regulation") that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets. The Basel III rules became effective as applied to us on January 1, 2015, with a phase-in period that generally extended from January 1, 2015 through January 1, 2019. The application of these stringent capital requirements on us could, among other things, result in lower returns on equity, require the raising of additional capital and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

We may need to raise additional capital in the future, including as a result of potential increased minimum capital thresholds established by regulators, but that capital may not be available when it is needed or may be dilutive to stockholders.

We are required by federal and state regulatory authorities to maintain adequate capital levels to support our operations. New regulations implementing minimum capital standards could require financial institutions to maintain higher minimum capital ratios and may place a greater emphasis on common equity as a component of "Tier 1 capital," which consists generally of stockholders' equity and qualifying preferred stock, less certain goodwill items and other intangible assets. In order to support our operations and comply with regulatory standards, we may need to raise capital in the future. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on favorable terms. The capital and credit markets have experienced significant volatility in recent years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If we cannot raise additional capital when needed, our financial condition and results of operations may be adversely affected, and our banking regulators may subject us to regulatory enforcement action, including receivership. Furthermore, our issuance of additional shares of our Class A common stock could dilute the economic ownership interest of our Class A stockholders.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, or CRA, the Equal Credit Opportunity Act, the Fair Housing Act, and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are subject to the Bank Secrecy Act and other anti-money laundering statutes and regulations and any deemed deficiency by us with respect to these laws could result in significant liability.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, or the Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports when appropriate. In addition to other bank regulatory agencies, the federal Financial Crimes Enforcement Network of the U.S. Treasury, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the state and federal banking regulators, as well as the U.S. Department of Justice, Consumer Financial Protection Bureau, Drug Enforcement Administration, and Internal Revenue Service, or the IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control of the U.S. Treasury regarding, among other things, the prohibition of transacting business with, and the need to freeze assets of, certain persons and organizations identified as a threat to the national security, foreign policy, or economy of the United States. If our policies, procedures, and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations, and future prospects.

Many of our new activities and expansion plans require regulatory approvals and failure to obtain them may restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial institutions and other complementary businesses. Generally, we must receive state and federal regulatory approval before we can acquire an FDIC-insured depository institution or related business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution's record of compliance under the CRA) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. We may also be required to sell branches as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

The Federal Reserve may require us to commit capital resources to support our subsidiary, Equity Bank.

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank at times when the bank holding company may not be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Accordingly, we could be required to provide financial assistance to our subsidiary, Equity Bank, if it experiences financial distress.

Such a capital injection may be required at a time when our resources are limited and we may be required to borrow the funds to make the required capital injection. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of any note obligations.

We could be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations.

Stockholders may be deemed to be acting in concert or otherwise in control of us and our bank subsidiary, which could impose prior approval requirements and result in adverse regulatory consequences for such holders.

We are a bank holding company regulated by the Federal Reserve. Any entity (including a "group" composed of natural persons) owning 25% or more of a class of our outstanding shares of voting stock, or a lesser percentage if such holder or group otherwise exercises a "controlling influence" over us, may be subject to regulation as a "bank holding company" in accordance with the Bank Holding Company Act of 1956, as amended. In addition, (i) any bank holding company or foreign bank with a U.S. presence is required to obtain the approval of the Federal Reserve under the Bank Holding Company Act to acquire or retain 5% or more of a class of our outstanding shares of voting stock, and (ii) any person other than a bank holding company may be required to obtain prior regulatory approval under the Change in Bank Control Act to acquire or retain 10% or more of our outstanding shares of voting stock. Any stockholder that is deemed to "control" the Company for bank regulatory purposes would become subject to prior approval requirements and ongoing regulation and supervision. Such a holder may be required to divest amounts equal to or exceeding 5% of the voting shares of investments that may be deemed incompatible with bank holding company status, such as an investment in a company engaged in non-financial activities. Regulatory determination of "control" of a depository institution or holding company is based on all of the relevant facts and circumstances. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

Shares of our common stock owned by holders determined by a bank regulatory agency to be acting in concert would be aggregated for purposes of determining whether those holders have control of a bank or bank holding company. Each stockholder obtaining control that is a "company" would be required to register as a bank holding company. "Acting in concert" generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent

company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty. Many factors can lead to a finding of acting in concert, including where: (i) the stockholders are commonly controlled or managed; (ii) the stockholders are parties to an oral or written agreement or understanding regarding the acquisition, voting or transfer of control of voting securities of a bank or bank holding company; (iii) the stockholders are immediate family members; or (iv) both a stockholder and a controlling stockholder, partner, trustee or management official of such stockholder own equity in the bank or bank holding company.

Risks Related to Our Class A Common Stock

The market price of our Class A common stock may be subject to substantial fluctuations which may make it difficult for you to sell your shares at the volumes, prices and times desired.

The trading price of our Class A common stock may be volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our Class A common stock, including:

- actual or anticipated fluctuations in our operating results, financial condition, or asset quality;
- market conditions in the broader stock market in general, or in our industry in particular;
- publication of research reports about us, our competitors, or the bank and non-bank financial services industries generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- future issuances of our Class A common stock or other securities;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving our competitors or us;
- additions or departures of key personnel;
- trades of large blocks of our Class A common stock;
- economic and political conditions or events;
- regulatory developments; and
- other news, announcements, or disclosures (whether by us or others) related to us, our competitors, our core markets, or the bank and non-bank financial services industries.

The stock market and, in particular, the market for financial institution stocks, have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our Class A common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our Class A common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

The obligations associated with being a public company require significant resources and management attention.

As a public company, we face increased legal, accounting, administrative and other costs and expenses that are not incurred by private companies, particularly after we are no longer an emerging growth company. We are subject to the reporting requirements of the Exchange Act, which requires that we file annual, quarterly and current reports with respect to our business and financial condition and proxy and other information statements, and the rules and regulations implemented by the SEC, the Sarbanes-Oxley Act, the Dodd-Frank Act, the PCAOB and the NASDAQ Stock Market LLC, each of which imposes additional reporting and other obligations on public companies. As a public company, we are required to:

- prepare and distribute periodic reports, proxy statements and other stockholder communications in compliance with the federal securities laws and rules;
- expand the roles and duties of our board of directors and committees thereof;
- maintain an enhanced internal audit function;
- institute more comprehensive financial reporting and disclosure compliance procedures;
- involve and retain to a greater degree outside counsel and accountants in the activities listed above;

- enhance our investor relations function;
- establish new internal policies, including those relating to trading in our securities and disclosure controls and procedures;
- retain additional personnel;
- comply with the NASDAQ Global Select Market listing standards; and
- comply with the Sarbanes-Oxley Act.

We expect these rules and regulations and changes in laws, regulations and standards relating to corporate governance and public disclosure, which have created uncertainty for public companies, to increase legal and financial compliance costs and make some activities more time consuming and costly. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our investment in compliance with existing and evolving regulatory requirements will result in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities, which could have a material adverse effect on our business, financial condition and results of operations. These increased costs may require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives

We have not historically declared or paid cash dividends on our common stock and we do not expect to pay dividends on our common stock in the foreseeable future. Consequently, your only opportunity to achieve a return on your investment is if the price of our Class A common stock appreciates.

The holders of our common stock will receive dividends if and when declared by our board of directors out of legally available funds. Our board of directors has not declared a dividend on our common stock since our inception. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, regulatory restrictions, and other factors that our board of directors may deem relevant.

Our principal business operations are conducted through our subsidiary, Equity Bank. Cash available to pay dividends to our stockholders is derived primarily, if not entirely, from dividends paid by Equity Bank to us. The ability of Equity Bank to pay dividends to us, as well as our ability to pay dividends to our stockholders, will continue to be subject to, and limited by, certain legal and regulatory restrictions. Further, any lenders making loans to us may impose financial covenants that may be more restrictive with respect to dividend payments than the regulatory requirements.

If a substantial number of shares become available for sale and are sold in a short period of time, the market price of our Class A common stock could decline.

If our existing stockholders sell substantial amounts of our Class A common stock in the public market, the market price of our Class A common stock could decrease significantly. The perception in the public market that our existing stockholders might sell shares of Class A common stock could also depress our market price. A decline in the price of shares of our Class A common stock might impede our ability to raise capital through the issuance of additional shares of our Class A common stock or other equity securities and could result in a decline in the value of the shares of our Class A common stock.

Securities analysts may not initiate or continue coverage on our Class A common stock, which could adversely affect the market for our Class A common stock.

The trading market for our Class A common stock may depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts and they may not cover our Class A common stock. If securities analysts do not cover our Class A common stock, the lack of research coverage may adversely affect our market price. If we are covered by securities analysts and our Class A common stock is the subject of an unfavorable report, the price of our Class A common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our Class A common stock to decline.

The trading volume in our common stock is less than other larger financial institutions.

Although our Class A common stock is listed for trading on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our Class A common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our Class A common stock, significant sales of our Class A common stock, or the expectation of these sales, could cause the price of our Class A common stock to decline.

Use of our common stock for future acquisitions or to raise capital may be dilutive to existing stockholders.

When we determine that appropriate strategic opportunities exist, we may acquire other financial institutions and related businesses, subject to applicable regulatory requirements. We may use our common stock for such acquisitions. We may also seek to raise capital for such acquisitions through selling additional common stock. It is possible that the issuance of additional common stock in such acquisitions or capital transactions may be dilutive to the interests of our existing stockholders.

A future issuance of stock could dilute the value of our Class A common stock.

We may sell additional shares of Class A common stock, or securities convertible into or exchangeable for such shares, in subsequent public or private offerings. Future issuance of any new shares could cause further dilution in the value of our outstanding shares of Class A common stock. We cannot predict the size of future issuances of our Class A common stock, or securities convertible into or exchangeable for such shares, or the effect, if any, that future issuances and sales of shares of our Class A common stock will have on the market price of our Class A common stock. Sales of substantial amounts of our Class A common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices of our Class A common stock.

We have significant institutional investors whose interests may differ from yours.

A significant portion of our outstanding equity is currently held by various investment funds. These funds could have a significant level of influence because of their level of ownership and representation on our board of directors, including a greater ability than you and our other stockholders to influence the election of directors and the potential outcome of other matters submitted to a vote of our stockholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters and affect the votes of our board of directors. These funds also have certain rights, such as access rights and registration rights that our other stockholders do not have. The interests of these funds could conflict with the interests of our other stockholders, including you, and any future transfer by these funds of their shares of Class A common stock to other investors who have different business objectives could have a material adverse effect on our business, financial condition, results of operations and future prospects, and the market value of our Class A common stock.

Our directors and executive officers beneficially own a significant portion of our Class A common stock and have substantial influence over us.

Our directors and executive officers, as a group, beneficially owned approximately 5.0% of our outstanding Class A common stock as of December 31, 2018. As a result of this level of ownership, our directors and executive officers have the ability, by taking coordinated action, to exercise significant influence over our affairs and policies. The interests of our directors and executive officers may not be consistent with your interests as a stockholder. This influence may also have the effect of delaying or preventing changes of control or changes in management, or limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of our Company.

Shares of our Class A common stock are not insured deposits and may lose value.

Shares of our Class A common stock are not savings or deposit accounts and are not insured by the FDIC's DIF, or any other agency or private entity. Such shares are subject to investment risk, including the possible loss of some or all of the value of your investment.

The laws that regulate our operations are designed for the protection of depositors and the public, not our stockholders.

The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the FDIC's DIF and not for the purpose of protecting stockholders. These laws and regulations can materially affect our future business.

Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change.

We have the ability to incur debt and pledge our assets, including our stock in Equity Bank, to secure that debt and holders of any such debt obligations will generally have priority over holders of our Class A common stock with respect to certain payment obligations.

We have the ability to incur debt and pledge our assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of Class A common stock. For example, interest must be paid to the lender before dividends can be paid to stockholders, and loans must be paid off before any assets can be distributed to stockholders if we were to liquidate. Furthermore, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis.

We are an emerging growth company under the JOBS Act and we cannot be certain whether the reduced disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.

We are an emerging growth company under the JOBS Act, and we therefore are permitted to, and we intend to, take advantage of exemptions from certain disclosure requirements. We are an emerging growth company until the earliest of: (i) the last day of the fiscal year during which we had total annual gross revenues of $1.0 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of our initial public offering; (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which we are deemed a "large accelerated filer," as defined under the federal securities laws. For so long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on certain executive compensation matters, such as "say on pay" and "say on frequency." As a result, our stockholders may not have access to certain information that they may deem important. Although we intend to rely on certain of the exemptions provided in the JOBS Act, the exact implications of the JOBS Act for us are still subject to interpretations and guidance by the SEC and other regulatory agencies.

We cannot predict whether investors will find our Class A common stock less attractive as a result of our taking advantage of these exemptions. If some investors find our Class A common stock less attractive as a result of these choices, there may be a less active trading market for our Class A common stock and our stock price may be more volatile.

If we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting we may not be able to accurately report our financial results or prevent fraud.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on that system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Ensuring that we have adequate disclosure controls and procedures, including internal control over financial reporting, in place so that we can produce accurate financial statements on a timely basis is costly and time-consuming and needs to be reevaluated frequently. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. Our management is required to certify our compliance with Section 404 of the Sarbanes-Oxley Act and to make annual assessments of the effectiveness of our internal control over financial reporting. In addition, when we cease to be an emerging growth company under the JOBS Act, our independent registered public accounting firm will be required to report on the effectiveness of our internal control over financial reporting.

Our management may conclude that our internal control over financial reporting are not effective due to our failure to cure any identified material weakness or otherwise. Moreover, even if our management concludes that our internal control over financial reporting are effective, our independent registered public accounting firm may not conclude that our internal control over financial reporting are effective. In the future, our independent registered public accounting firm may not be satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated or reviewed, or it may interpret the relevant requirements differently from us. In addition, during the course of the evaluation, documentation and testing of our internal control over financial reporting, we may identify deficiencies in our internal controls over financial reporting or disclosure controls. Any such deficiencies may also subject us to adverse regulatory consequences. If we fail to achieve and maintain the adequacy of our internal control over financial reporting or disclosure controls, as these standards are modified, supplemented or amended from time to time, we may be unable to report our financial information on a timely basis, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting or disclosure controls, and we may suffer adverse regulatory consequences

or violations of listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in the reliability of our financial statements.

Our corporate governance documents and certain corporate and banking laws applicable to us could make a takeover more difficult.

Certain provisions of our Articles of Incorporation and our Bylaws, and applicable corporate and federal banking laws, could make it more difficult for a third party to acquire control of us or conduct a proxy contest, even if those events were perceived by many of our stockholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us, among others:

- empower our board of directors, without stockholder approval, to issue preferred stock, the terms of which, including voting power, are set by our board of directors;
- only permit stockholder action to be taken at an annual or special meeting of stockholders and not by written consent in lieu of such a meeting;
- provide for a classified board of directors, so that only approximately one-third of our directors are elected each year;
- prohibit us from engaging in certain business combinations with "interested stockholders" (generally defined as a holder of 15% or more of the corporation's outstanding voting stock);
- require at least 120 days' advance notice of nominations for the election of directors and the presentation of stockholder proposals at meetings of stockholders; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our stockholders might otherwise receive a premium over the market price of our shares.

Our board of directors may issue shares of preferred stock that would adversely affect the rights of our Class A common stockholders.

Our authorized capital stock includes 10,000,000 shares of preferred stock of which none were issued and outstanding as of March 20, 2019. Our board of directors, in its sole discretion, may designate and issue one or more series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our Articles of Incorporation, our board of directors is empowered to determine:

- the designation of, and the number of, shares constituting each series of preferred stock;
- the dividend rate for each series;
- the terms and conditions of any voting, conversion and exchange rights for each series;
- the amounts payable on each series on redemption or our liquidation, dissolution or winding-up;
- the provisions of any sinking fund for the redemption or purchase of shares of any series; and
- the preferences and the relative rights among the series of preferred stock.

We could issue preferred stock with voting and conversion rights that could adversely affect the voting power of the shares of our Class A common stock and with preferences over our Class A common stock with respect to dividends and in liquidation.

The return on your investment in our Class A common stock is uncertain.

We cannot provide any assurance that an investor in our Class A common stock will realize a substantial return on his or her investment, or any return at all. Further, as a result of the uncertainty and risks associated with our operations, many of which are described in this "Item 1A—Risk Factors" section, it is possible that an investor could lose his or her entire investment.

Item 1B: Unresolved Staff Comments

None

Item 2: Properties

Our principal executive offices are located at 7701 East Kellogg Drive, Wichita, Kansas 67207. Including our principal executive offices, as of December 31, 2018, we operated a total of 49 branches, consisting of four branches in the Wichita, Kansas metropolitan area, seven branches in the Kansas City metropolitan area, three branches in Topeka, Kansas, ten branches in Western Missouri, five branches in Western Kansas, four branches in Southeast Kansas, five branches in Southwest Kansas, five branches in Northern Arkansas, one branch in the Tulsa, Oklahoma metropolitan area, four branches in Northern Oklahoma and one branch in Western Oklahoma. Most of Equity Bank's branches are equipped with automated teller machines and drive-through facilities. We believe all of our facilities are suitable for our operational needs. The following table summarizes pertinent details of our principal executive offices and branches, as of December 31, 2018.

Address	Owned/Leased
Principal Executive Office and Wichita Branch:	
7701 East Kellogg Drive Wichita, Kansas 67207	Owned
Other Wichita Area Branches:	
345 North Andover Road Andover, Kansas 67002	Owned
1555 North Webb Road Wichita, Kansas 67206	Owned
10222 West Central Wichita, Kansas 67212	Owned
Kansas City Branches:	
6200 Northwest 63rd Terrace Kansas City, Missouri 64151	Owned
8880 West 151st Street Overland Park, Kansas 66221	Owned
4551 West 107th Street, Suite 210 Overland Park, Kansas 66207	Leased
909 Northeast Rice Road Lee's Summit, Missouri 64086	Owned
301 Southeast Main Street Lee's Summit, Missouri 64063	Owned
1251 Southwest Oldham Parkway Lee's Summit, Missouri 64081	Owned
651 Northeast Coronado Drive Blue Springs, Missouri 64014	Owned
Tulsa Branches:	
9292 South Delaware Ave Tulsa, Oklahoma 74137	Owned
Western Missouri Branches:	
1919 Highway 13 Higginsville, Missouri 64037	Owned
300 South Miller Street Sweet Springs, Missouri 65351	Owned
612 North Maguire Warrensburg, Missouri 64093	Owned
1110 South Mitchell Street Warrensburg, Missouri 64093	Leased

Address	Owned/Leased
200 North State Street Knob Noster, Missouri 65336	Owned
920 Thompson Boulevard Sedalia, Missouri 65301	Owned
504 West Benton Street Windsor, Missouri 65360	Owned
615 East Ohio Street Clinton, Missouri 64735	Owned
100 East Main Street Warsaw, Missouri 65355	Owned
1601 Commercial Street Warsaw, Missouri 65355	Owned
Topeka Branches:	
701 South Kansas Avenue Topeka, Kansas 66603	Owned
507 West 8th Street Topeka, Kansas 66603	Owned
3825 Southwest 29th Street Topeka, Kansas 66614	Owned
Western Kansas Branches:	
2428 Vine Street Hays, Kansas 67601	Owned
916 Washington Street Ellis, Kansas 67637	Owned
745 Main Street Hoxie, Kansas 67740	Owned
300 Highway 212 Quinter, Kansas 67752	Owned
106 South Adams Street Grinnell, Kansas 67738	Owned
Southeast Kansas Branches:	
902 McArthur Rd Coffeyville, Kansas 67337	Owned
112 East Myrtle Street Independence, Kansas 67301	Owned
801 Main Neodesha, Kansas 66757	Owned
102 North Broadway Street Pittsburg, Kansas 66762	Owned
Southwest Kansas Branches:	
502 South Jackson Street Hugoton, Kansas 67951	Owned

Address	Owned/Leased
1700 North Lincoln Avenue Liberal, Kansas 67901	Owned
23 West 4th Street Liberal, Kansas 67901	Owned
930 South Kansas Avenue Liberal, Kansas 67901	Leased
250 East Tucker Road Liberal, Kansas 67901	Leased
Northern Arkansas Branches:	
200 East Ridge Avenue Harrison, Arkansas 72601	Owned
1304 Highway 62/65 North[(1)] Harrison, Arkansas 72601	Leased
911 West Trimble Avenue Berryville, Arkansas 72616	Owned
107 West Van Buren Eureka Springs, Arkansas 72632	Leased
198 Slack Street Pea Ridge, Arkansas 72751	Owned
Northern Oklahoma Branches:	
222 East Grand Avenue Ponca City, Oklahoma 74601	Leased
802 East Prospect Avenue Ponca City, Oklahoma 74601	Owned
1417 East Hartford Avenue Ponca City, Oklahoma 74604	Leased
102 South Main Street Newkirk, Oklahoma 74647	Owned
Western Oklahoma Branches:	
601 North Main Street Guymon, Oklahoma 73942	Owned

[(1)]The building at this location is owned but the land is on a long term lease expiring in January 2030.

Item 3: Legal Proceedings

From time to time we are party to various litigation matters incidental to the conduct of our business. See “NOTE 23 – LEGAL MATTERS” of the Notes to Consolidated Financial Statements under Item 8 to this Annual Report on Form 10-K for a complete discussion of litigation matters.

Item 4: Mine Safety Disclosures

Not applicable.

Part II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Common Equity Holders

Our common stock is listed on the NASDAQ Global Select Markets under the symbol "EQBK". At March 12, 2019, there were 15,803,587 shares of our Class A common stock, outstanding and 292 stockholders of record for the Company's Class A common stock. At March 12, 2019, no shares of our Class B common stock were outstanding.

The following table sets forth, for the periods indicated, the high and low intraday sales prices for our Class A common stock as reported by the NASDAQ Global Select Market.

	High	Low
Quarter ended March 31, 2017	$ 35.24	$ 29.82
Quarter ended June 30, 2017	$ 33.11	$ 29.13
Quarter ended September 30, 2017	$ 36.30	$ 30.67
Quarter ended December 31, 2017	$ 36.99	$ 32.93
Quarter ended March 31, 2018	$ 40.77	$ 34.72
Quarter ended June 30, 2018	$ 44.26	$ 36.57
Quarter ended September 30, 2018	$ 44.30	$ 37.11
Quarter ended December 31, 2018	$ 40.00	$ 31.32
Quarter ended March 31, 2019 (through March 12, 2019)	$ 35.96	$ 30.90

Dividend Policy

We have not historically declared or paid cash dividends on our common stock and we do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any future determination to pay dividends on our common stock will be made by our board of directors and will depend on a number of factors, including:

- our historical and projected financial condition, liquidity and results of operations;
- our capital levels and requirements;
- statutory and regulatory prohibitions and other limitations;
- any contractual restriction on our ability to pay cash dividends, including pursuant to the terms of any of our credit agreements or other borrowing arrangements;
- our business strategy;
- tax considerations;
- any acquisitions or potential acquisitions that we may examine;
- general economic conditions; and
- other factors deemed relevant by our board of directors.

We are not obligated to pay dividends on our common stock.

As a Kansas corporation, we are subject to certain restrictions on dividends under the Kansas General Corporation Code. Generally, a Kansas corporation may pay dividends to its stockholders out of its surplus or, if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared or the preceding fiscal year, or both. In addition, if the capital of a Kansas corporation is diminished by depreciation in the value of its property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, the directors of such corporation cannot declare and pay out of such net profits any dividends upon any shares of any classes of its capital stock until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets is repaired. We are also subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. For more information, see "Item 1 – Supervision and Regulation – Banking Regulation – Standards for Safety and Soundness."

Since we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our stockholders depends, in large part, upon our receipt of dividends from Equity Bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. The present and future dividend policy of Equity Bank is subject to the discretion of its board of directors. Equity Bank is not obligated to pay dividends.

If Equity Bank is "significantly undercapitalized" under the applicable federal bank capital standards, or if Equity Bank is "undercapitalized" and has failed to submit an acceptable capital restoration plan or has materially failed to implement such a plan, the FDIC may choose to require Equity Bank to receive prior approval for any capital distribution from the Federal Reserve. In addition, Equity Bank generally is prohibited from making a capital distribution if such a distribution would cause Equity Bank to be "undercapitalized" under applicable federal bank capital standards. For more information, see "Item 7 – Supervision and Regulation – Banking Regulation – Standards for Safety and Soundness."

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents shares of our common stock that may be issued with respect to compensation plans at December 31, 2018.

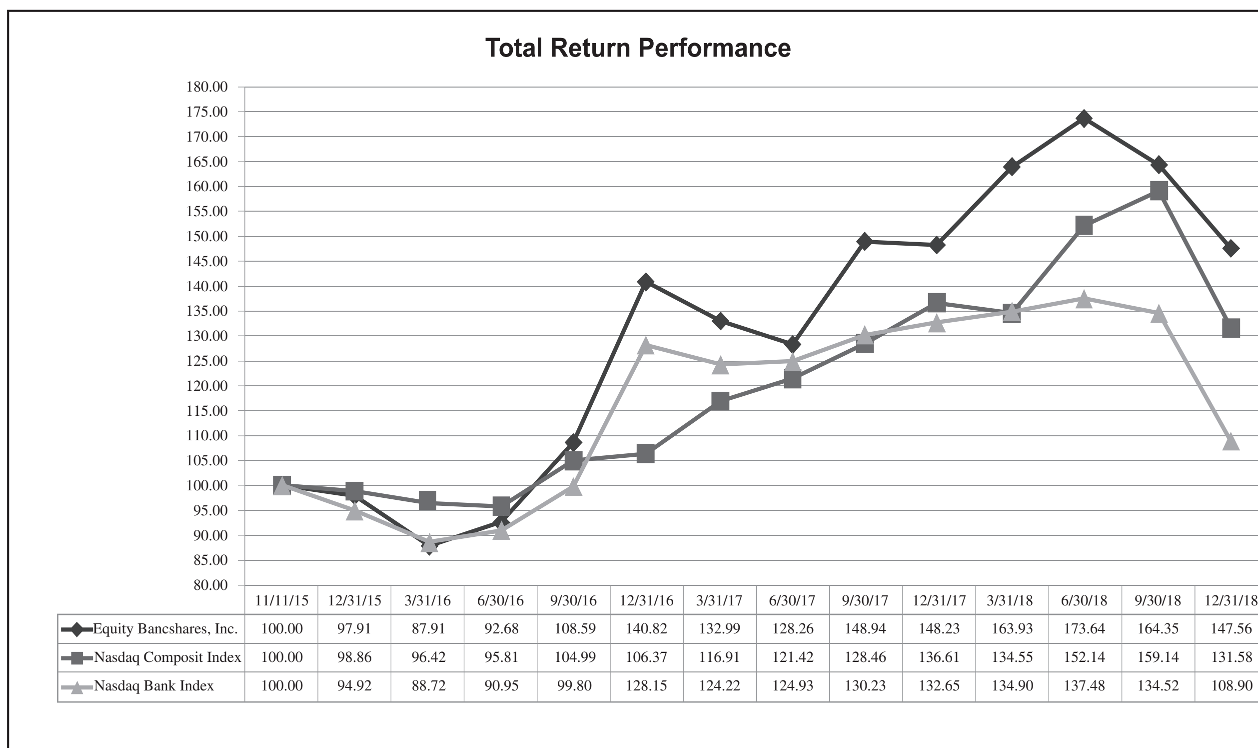
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders - stock options	702,556	$ 26.04	*
Equity compensation plans approved by security holders - restricted stock units	132,107	—	*
Total Equity compensation plans approved by security holders	834,663		614,424
Equity compensation plans not approved by security holders[(1)]	150,000	12.00	—
Total	984,663	$ 23.57	614,424

* All securities remaining available for future issuance were available under our Amended and Restated 2013 Stock Incentive Plan as of December 31, 2018.

(1) Includes 150,000 options to purchase common stock outstanding under our 2006 Non-Qualified Stock Option Plan. No securities remained available for future issuance under our 2006 Non-Qualified Stock Option Plan.

Performance Graph

The following performance graph compares total stockholders' return on the Company's common stock for the period beginning at the close of trading November 11, 2015 to December 31, 2018, with the cumulative total return of the NASDAQ Composite Index and the NASDAQ Bank Index for the same period. Cumulative total return is computed by dividing the difference between the Company's share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The performance graph assumes $100 is invested on November 11, 2015, in the Company's common stock, the NASDAQ Composite Index and the NASDAQ Bank Index. Historical stock price performance is not necessarily indicative of future stock price performance.



	11/11/15	12/31/15	3/31/16	6/30/16	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18
Equity Bancshares, Inc.	100.00	97.91	87.91	92.68	108.59	140.82	132.99	128.26	148.94	148.23	163.93	173.64	164.35	147.56
Nasdaq Composit Index	100.00	98.86	96.42	95.81	104.99	106.37	116.91	121.42	128.46	136.61	134.55	152.14	159.14	131.58
Nasdaq Bank Index	100.00	94.92	88.72	90.95	99.80	128.15	124.22	124.93	130.23	132.65	134.90	137.48	134.52	108.90

Recent Sales of Unregistered Equity Securities

None

Purchases of equity securities by the issuer and affiliated purchasers

None

Item 6: Selected Financial Data

The following table sets forth selected historical consolidated financial and other data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014. Our historical results are not necessarily indicative of any future period. The performance and certain capital ratios are unaudited and derived from our audited and unaudited financial statements as of and for the periods presented. Average balances have been calculated using daily averages, unless otherwise denoted.

You should read the selected consolidated financial data set forth below in conjunction with "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

Selected Financial Data for the periods indicated (dollars in thousands, except per share amounts) is listed below.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Statement of Income Data					
Interest and dividend income	$ 161,556	$ 102,693	$ 61,799	$ 53,028	$ 46,794
Interest expense	36,758	16,691	9,202	6,766	5,433
Net interest income	124,798	86,002	52,597	46,262	41,361
Provision for loan losses	3,961	2,953	2,119	3,047	1,200
Net gain on acquisition	—	—	—	682	—
Net gain on sale and settlement of securities	(9)	271	479	756	986
Other non-interest income	19,734	15,169	9,987	8,364	7,688
Merger expense	7,462	5,352	5,294	1,691	—
Loss on extinguishment of debt	—	—	58	316	—
Other non-interest expense	86,925	62,111	41,723	36,568	35,645
Income before income taxes	46,175	31,026	13,869	14,442	13,190
Provision for income taxes	10,350	10,377	4,495	4,142	4,203
Net income	35,825	20,649	9,374	10,300	8,987
Dividends and discount accretion on preferred stock	—	—	(1)	(177)	(708)
Net income allocable to common stockholders	35,825	20,649	9,373	10,123	8,279
Basic earnings per share	2.33	1.66	1.09	1.55	1.31
Diluted earnings per share	2.28	1.62	1.07	1.54	1.30
Balance Sheet Data (at period end)					
Cash and cash equivalents	$ 192,818	$ 52,195	$ 35,095	$ 56,829	$ 31,707
Securities available-for-sale	168,875	162,272	95,732	130,810	52,985
Securities held-to-maturity	748,356	535,462	465,709	310,539	261,017
Loans held for sale	2,972	2,353	4,830	3,504	897
Gross loans held for investment	2,575,408	2,117,270	1,383,605	960,355	725,876
Allowance for loan losses	11,454	8,498	6,432	5,506	5,963
Loans held for investment, net of allowance for loan losses	2,563,954	2,108,772	1,377,173	954,849	719,913
Goodwill and core deposit intangibles, net	153,437	115,645	63,589	19,679	19,237
Mortgage servicing asset, net	11	17	23	29	—
Naming rights, net	1,217	1,260	—	—	—
Total assets	4,061,716	3,170,509	2,192,192	1,585,727	1,174,515
Total deposits	3,123,447	2,382,013	1,630,451	1,215,914	981,177
Borrowings	464,676	401,652	293,909	194,064	70,370
Total liabilities	3,605,775	2,796,365	1,934,228	1,418,494	1,056,786
Total stockholders' equity	455,941	374,144	257,964	167,233	117,729
Tangible common equity*	301,276	257,222	194,352	131,153	82,133
Performance ratios					
Return on average assets (ROAA)	1.00%	0.84%	0.55%	0.75%	0.78%
Return on average equity (ROAE)	8.52%	7.03%	5.55%	8.19%	7.30%
Return on average tangible common equity (ROATCE)*	13.43%	9.81%	6.75%	9.66%	9.99%
Yield on loans	5.74%	5.43%	4.98%	5.31%	5.63%
Cost of interest-bearing deposits	1.15%	0.79%	0.65%	0.55%	0.49%

Net interest margin	3.81%	3.83%	3.30%	3.65%	3.92%
Efficiency ratio*	60.14%	61.39%	66.67%	66.94%	72.67%
Non-interest income / average assets	0.55%	0.63%	0.61%	0.71%	0.75%
Non-interest expense / average assets	2.62%	2.74%	2.74%	2.81%	3.08%
Capital Ratios					
Tier 1 Leverage Ratio	8.60%	10.33%	11.81%	9.47%	9.62%
Common Equity Tier 1 Capital Ratio	11.02%	11.56%	13.34%	12.35%	N/A
Tier 1 Risk Based Capital Ratio	11.52%	12.17%	14.25%	13.85%	13.16%
Total Risk Based Capital Ratio	11.92%	12.54%	14.67%	14.35%	13.86%
Equity / Assets	11.23%	11.80%	11.77%	10.55%	10.02%
Book value per share	$ 28.87	$ 25.62	$ 22.09	$ 18.37	$ 16.71
Tangible book value per share*	$ 19.08	$ 17.61	$ 16.64	$ 15.97	$ 13.54
Tangible common equity to tangible assets*	7.71%	8.42%	9.13%	8.37%	7.11%

*Indicates non-GAAP financial measure. Please see “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures” for reconciliation to the most directly comparable GAAP measure.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Cautionary Statement Regarding Forward-Looking Statements." Also, see the risk factors and other cautionary statements described under the heading "Item 1A – Risk Factors" included in Item 1A of this Annual Report on Form 10-K. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

This discussion and analysis of our financial condition and results of operation includes the following sections:

- Overview
- Critical Accounting Policies – a discussion of accounting policies that require critical estimates and assumptions;
- Results of Operations – an analysis of our operating results, including disclosures about the sustainability of our earnings;
- Financial Condition – an analysis of our financial position;
- Liquidity and Capital Resources – an analysis of our cash flows and capital position; and
- Non-GAAP Financial Measures – reconciliation of non-GAAP measures.

Overview

We are a bank holding company headquartered in Wichita, Kansas. Our wholly-owned banking subsidiary, Equity Bank, provides a broad range of financial services primarily to businesses and business owners as well as individuals through our network of 49 full service branches located in Arkansas, Kansas, Missouri and Oklahoma, as of December 31, 2018. As of December 31, 2018, we had, on a consolidated basis, total assets of $4.06 billion, total deposits of $3.12 billion, total loans held for investment of $2.56 billion (net of allowances) and total stockholders' equity of $455.9 million. Net income for the year ended December 31, 2018 was $35.8 million compared to $20.6 million for the prior year ended December 31, 2017, an increase of $15.2 million, or 73.5%.

History and Background

From 2003 through 2018, we completed a series of sixteen acquisitions and two charter consolidations. We seek to integrate the banks we acquire into our existing operational platform and enhance stockholder value through the creation of efficiencies within the combined operations. In conjunction with our strategic acquisition growth, we strive to reposition and improve the loan portfolio and deposit mix of the banks we acquire. Following our acquisitions, we focus on identifying and disposing of problematic loans and replacing them with higher quality loans generated organically. In addition, we concentrate on growth in our commercial loan portfolio, which we believe generally offers higher return opportunities than our consumer loan portfolio, primarily by hiring additional talented bankers, particularly in our metropolitan markets, and incentivizing our bankers to expand their commercial banking relationships. We also seek to increase our most attractive deposit accounts primarily by growing deposits in our community markets and cross-selling our depository products to our loan customers.

Our principal objective is to continually increase stockholder value and generate consistent earnings growth by expanding our commercial banking franchise both organically and through strategic acquisitions. We believe our strategy of selectively acquiring and integrating community banks has provided us with economies of scale and improved our overall franchise efficiency. We expect to continue to pursue strategic acquisitions and believe our targeted market areas present us with many and varied acquisition opportunities. We are also focused on continuing to grow organically and believe the markets in which we operate currently provide meaningful opportunities to expand our commercial customer base and increase our current market share. We believe our geographic footprint, which is strategically split between growing metropolitan markets, such as Kansas City, Tulsa and Wichita, and stable community markets within Western Kansas, Western Missouri, Topeka, Northern Arkansas and Northern Oklahoma, provides us with access to low cost stable core deposits in community markets that we can use to fund commercial loan growth in our metropolitan markets. We strive to provide an enhanced banking experience for our customers by providing them with a comprehensive suite of sophisticated banking products and services tailored to meet their needs, while delivering the high-quality relationship-based customer service of a community bank.

Highlights for the Year Ended December 31, 2018

- Net income allocable to common stockholders of $35.8 million for the year ended December 31, 2018, compared to $20.6 million for the year ended December 31, 2017, a 73.5% increase.
- Total loans held for investment of $2.58 billion at December 31, 2018, compared to $2.12 billion at December 31, 2017, an increase of $458.1 million, or 21.6%.
- Total deposits of $3.12 billion at December 31, 2018, compared to $2.38 billion at December 31, 2017, an increase of $741.4 million, or 31.1%.
- Total assets of $4.06 billion at December 31, 2018, compared to $3.17 billion at December 31, 2017, an increase of $891.2 million, or 28.1%.
- Book value per common share of $28.87 at December 31, 2018, compared to $25.62 at December 31, 2017, an increase of $3.25, or 12.7%.
- Tangible book value per common share of $19.08 at December 31, 2018, compared to $17.61 at December 31, 2017, an increase of $1.47, or 8.3%.

We completed our merger with Kansas Bank Corporation ("KBC") of Liberal, Kansas on May 4, 2018. KBC had total assets of $336.1 million, net loans of $159.4 million and total deposits of $288.4 million. Also on May 4, 2018, we completed our merger with Adams Dairy Bancshares, Inc. ("Adams") of Blue Springs, Missouri. Adams had total assets of $119.8 million, net loans of $82.7 million and total deposits of $97.1 million. On August 23, 2018, we completed the merger of City Bank and Trust ("City Bank") of Guymon, Oklahoma, with Equity Bank. City Bank had total assets of $163.3 million, net loans of $77.1 million and total deposits of $126.9 million.

Critical Accounting Policies

Our significant accounting policies are integral to understanding the results reported. Our accounting policies are described in "NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the Notes to Consolidated Financial Statements. We believe that of our significant accounting policies, the following may involve a higher degree of judgement and complexity.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of previous charge-offs and an allowance for loan losses, and for purchased loans, net of unamortized purchase premiums and discounts. Interest income is accrued on the unpaid principal balance.

Purchased Credit Impaired Loans: As a part of previous acquisitions, we acquired certain loans for which there was, at acquisition, evidence of deterioration of credit quality since origination. These purchased credit impaired loans were recorded at the acquisition date fair value, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Such purchased credit impaired loans are accounted for individually. We estimate the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of the amount paid are recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of the expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Nonaccrual Loans: Generally, loans are designated as nonaccrual when either principal or interest payments are 90 days or more past due based on contractual terms unless the loan is well secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed against income. Future interest income may be recorded on a cash basis after recovery of principal is reasonably assured. Nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans: A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. All loans are individually evaluated for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or on the value of the underlying collateral if the loan is collateral dependent. We evaluate the collectability of both principal and interest when assessing the need for a loss accrual.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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 of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled Debt Restructurings: In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructured loan and classified as impaired. Generally, a nonaccrual loan that is a troubled debt restructuring remains on nonaccrual until such time that repayment of the remaining principal and interest is not in doubt, and the borrower has a period of satisfactory repayment performance.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. A loan review process, independent of the loan approval process, is utilized by management to verify loans are being made and administered in accordance with Company policy, to review loan risk grades and potential losses, to verify that potential problem loans are receiving adequate and timely corrective measures to avoid or reduce losses, and to assist in the verification of the adequacy of the loan loss reserve. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the sale of the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, we determine the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio and class and is based on the actual loss history experienced by us. This actual loss experience is then adjusted by comparing current conditions to the conditions that existed during the loss history. We consider the changes related to (i) lending policies, (ii) economic conditions, (iii) nature and volume of the loan portfolio and class, (iv) lending staff, (v) volume and severity of past due, non-accrual, and risk graded loans, (vi) loan review system, (vii) value of underlying collateral for collateral dependent loans, (viii) concentration levels and (ix) effects of other external factors.

Goodwill: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets.

Core Deposit Intangibles: Core deposit intangibles are acquired customer relationships arising from whole bank and branch acquisitions. Core deposit intangibles are initially measured at fair value and then are amortized over their estimated useful lives using an accelerated method. The useful lives of the core deposits are estimated to generally be between seven and ten years.

Goodwill and core deposit intangibles are assessed at least annually for impairment and any such impairment is recognized and expensed in the period identified. We have selected December 31 as the date to perform our annual goodwill impairment test. Goodwill is the only intangible asset with an indefinite useful life.

Emerging Growth Company: Pursuant to the JOBS Act, an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the Financial Accounting Standards Board ("FASB") or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have irrevocably elected to adopt new accounting standards within the public company adoption period.

We may take advantage of some of the reduced regulatory and reporting requirements that are available to us so long as the Company qualifies as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

Results of Operations

We generate most of our revenue from interest income and fees on loans, interest and dividends on investment securities and non-interest income, such as service charges and fees, debit card income and mortgage banking income. We incur interest expense on deposits and other borrowed funds and non-interest expense, such as salaries and employee benefits and occupancy expenses.

Changes in interest rates earned on interest-earning assets or incurred on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and non-interest-bearing liabilities and stockholders' equity, are usually the largest drivers of periodic change in net interest income. Fluctuations in interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international circumstances and domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Arkansas, Kansas, Missouri and Oklahoma, as well as developments affecting the consumer, commercial and real estate sectors within these markets.

Net Income

Year ended December 31, 2018 compared with year ended December 31, 2017

Net income for the year ended December 31, 2018 was $35.8 million compared to $20.6 million for year ended December 31, 2017. Net income allocable to common stockholders was $35.8 million for the year ended December 31, 2018, compared to $20.6 million for the year ended December 31, 2017, an increase of $15.2 million, or 73.5%. During the year ended December 31, 2018, increases in net interest income of $38.8 million and non-interest income of $4.3 million were partially offset by $26.9 million in higher non-interest expenses and an increase of $1.0 million in the provision for loan loss when compared to the year ended December 31, 2017. The changes in the components of net income are discussed in more detail in the following sections of "Results of Operations."

Year ended December 31, 2017 compared with year ended December 31, 2016

Net income for the year ended December 31, 2017 was $20.6 million compared to $9.4 million for year ended December 31, 2016. Net income allocable to common stockholders was $20.6 million for the year ended December 31, 2017, compared to $9.4 million for the year ended December 31, 2016, an increase of $11.3 million, or 120.3%. During the year ended December 31, 2017, increases in net interest income of $33.4 million and non-interest income of $5.0 million were partially offset by $20.4 million in higher non-interest expenses and an increase of $834 thousand in the provision for loan loss when compared to the year ended December 31, 2016. The changes in the components of net income are discussed in more detail in the following sections of "Results of Operations."

Net Interest Income and Net Interest Margin Analysis

Net interest income is the difference between interest income on interest-earning assets, including loans and securities, and interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. To evaluate net interest income, management measures and monitors (1) yields on loans and other interest-earning assets, (2) the costs of deposits and other funding sources, (3) the net interest spread and (4) net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because non-interest-bearing sources of funds, such as non-interest-bearing deposits and stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these non-interest-bearing sources of funds. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a "volume change," and it is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a "yield/rate change."

The following table shows the average balance of each principal category of assets, liabilities, and stockholders' equity and the average yields on interest-earning assets and average rates on interest-bearing liabilities for the years ended December 31, 2018, 2017 and 2016. The yields and rates are calculated by dividing income or expense by the average daily balances of the associated assets or liabilities.

Average Balance Sheets and Net Interest Analysis

	December 31, 2018			December 31, 2017			December 31, 2016		
(Dollars in thousands)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)
Interest-earning assets									
Loans(1)	$ 2,388,509	$137,048	5.74%	$ 1,576,364	$ 85,662	5.43%	$ 1,009,918	$50,272	4.98%
Taxable securities	671,817	17,943	2.67%	510,165	12,308	2.41%	382,616	8,111	2.12%
Nontaxable securities	134,038	4,089	3.05%	111,242	3,375	3.03%	59,735	1,654	2.77%
Federal funds sold and other	77,681	2,476	3.19%	47,937	1,348	2.81%	140,415	1,762	1.25%
Total interest-earning assets	3,272,045	$161,556	4.94%	2,245,708	$102,693	4.57%	1,592,684	$61,799	3.88%
Non-interest-earning assets									
Other real estate owned, net	7,071			8,968			6,167		
Premises and equipment, net	72,390			55,299			40,800		
Bank-owned life insurance	71,041			49,409			33,415		
Goodwill and core deposit intangible, net	139,131			76,320			25,749		
Other non-interest-earning assets	37,235			26,315			18,397		
Total assets	$ 3,598,913			$ 2,462,019			$ 1,717,212		
Interest-bearing liabilities									
Interest-bearing demand deposits	$ 602,506	$ 4,623	0.77%	$ 452,652	$ 2,299	0.51%	$ 314,515	$ 890	0.28%
Savings and money market	798,820	8,060	1.01%	501,386	2,781	0.55%	317,394	1,317	0.41%
Savings, NOW and money market	1,401,326	12,683	0.91%	954,038	5,080	0.53%	631,909	2,207	0.35%
Certificates of deposit	836,298	13,004	1.56%	647,998	7,642	1.18%	453,045	4,835	1.07%
Total interest-bearing deposits	2,237,624	25,687	1.15%	1,602,036	12,722	0.79%	1,084,954	7,042	0.65%
FHLB term and line of credit advances	430,490	9,039	2.10%	258,951	2,909	1.12%	250,282	1,400	0.56%
Bank stock loan	14,241	731	5.13%	356	16	4.48%	989	31	3.09%
Subordinated borrowings	14,107	1,187	8.41%	13,820	980	7.09%	9,948	671	6.74%
Other borrowings	43,714	114	0.26%	25,823	64	0.25%	22,599	58	0.26%
Total interest-bearing liabilities	2,740,176	$ 36,758	1.34%	1,900,986	$ 16,691	0.88%	1,368,772	$ 9,202	0.67%
Non-interest-bearing liabilities and stockholders' equity									
Non-interest-bearing checking accounts	426,410			257,346			169,514		
Non-interest-bearing liabilities	11,874			9,889			10,103		
Stockholders' equity	420,453			293,798			168,823		
Total liabilities and stockholders' equity	$ 3,598,913			$ 2,462,019			$ 1,717,212		
Net interest income		$124,798			$ 86,002			$52,597	
Interest rate spread			3.60%			3.69%			3.21%
Net interest margin(2)			3.81%			3.83%			3.30%
Total cost of deposits, including non-interest bearing deposits	$ 2,664,034	$ 25,687	0.96%	$ 1,859,382	$ 12,722	0.68%	$ 1,254,468	$ 7,042	0.56%
Average interest-earning assets to interest-bearing liabilities			119.41%			118.13%			116.36%

(1) Average loan balances include nonaccrual loans, hedge fair value adjustments and merger fair value adjustments.
(2) Net interest margin is calculated by dividing net interest income by average interest-earning assets for the period.
(3) Tax exempt income is not included in the above table on a tax equivalent basis.
(4) Actual unrounded values are used to calculate the reported yield or rate disclosed. Accordingly, recalculations using the amounts in thousands as disclosed in this report may not produce the same amounts.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest yields/rates. The following table analyzes the change in volume variances and yield/rate variances for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and the year ended December 31, 2017 as compared to the year ended December 31, 2016.

Analysis of Changes in Net Interest Income

	2018 vs. 2017 Increase (Decrease) Due to:			2017 vs. 2016 Increase (Decrease) Due to:		
(Dollars in thousands)	Volume[(1)]	Yield/Rate[(1)]	Total	Volume[(1)]	Yield/Rate[(1)]	Total
Interest-earning assets						
Loans	$ 46,358	$ 5,028	$ 51,386	$ 30,418	$ 4,972	$ 35,390
Taxable securities	4,212	1,423	5,635	2,968	1,229	4,197
Nontaxable securities	696	18	714	1,549	172	1,721
Federal funds sold and other	928	200	1,128	(1,659)	1,245	(414)
Total interest-earning assets	$ 52,194	$ 6,669	$ 58,863	$ 33,276	$ 7,618	40,894
Interest-bearing liabilities						
Savings, NOW and money market	$ 3,131	$ 4,472	$ 7,603	$ 1,427	$ 1,446	$ 2,873
Certificates of deposit	2,558	2,804	5,362	2,256	551	2,807
Total interest-bearing deposits	5,689	7,276	12,965	3,683	1,997	5,680
FHLB term and line of credit advances	2,652	3,478	6,130	50	1,459	1,509
Bank stock loan	712	3	715	(25)	10	(15)
Subordinated borrowings	21	186	207	273	36	309
Other borrowings	47	3	50	8	(2)	6
Total interest-bearing liabilities	$ 9,121	$ 10,946	$ 20,067	$ 3,989	$ 3,500	$ 7,489
Net Interest Income	$ 43,073	$ (4,277)	$ 38,796	$ 29,287	$ 4,118	$ 33,405

(1) The effect of changes in volume is determined by multiplying the change in volume by the previous year's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the prior year's volume. The changes attributable to both volume and rate, which cannot be segregated, have been allocated to the volume variance and the rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Year ended December 31, 2018 compared with year ended December 31, 2017

The increase in net interest income before the provision for loan losses is primarily due to the increase in the volume of interest-earnings assets and to a lesser extent an increase in yields on interest-earning assets. The increase in average volume of interest-earning assets was primarily due to increases in loans and investment securities. The increase in interest expense was primarily due to an increase in the average rates and volume of interest bearing liabilities incurred to fund the increased volume of interest-earning assets.

The increase in loan interest income was driven by the increase in average loan volume and a 31 basis point increase in yield on the loan portfolio from 5.43% for the year ended December 31, 2017 to 5.74% for the year ended December 31, 2018. The impact to net interest income from loan fees for the year ended December 31, 2018, was $6.5 million compared to $3.5 million for the year ended December 31, 2017.

Average balances of borrowings from the FHLB increased by $171.5 million from an average balance of $259.0 million for the year ended December 31, 2017 to an average balance of $430.5 million for the year ended December 31, 2018, resulting in an increase in interest expense of $6.1 million. Interest expense on our bank stock loan for the year ended December 31, 2018 was $731 thousand compared to $16 thousand for the year ended December 31, 2017. Total cost of interest-bearing liabilities increased 46 basis points to 1.34% for the year ended December 31, 2018 from 0.88% for the year ended December 31, 2017.

The decrease in net interest margin is largely due to the cost of interest-bearing liabilities rising at a faster rate than interest-earning assets. The increase in cost of funds is primarily from the increase in cost of both retail and public fund deposits. The cost of retail deposits increased as the general level of interest rates rose and due to an increased level of market competition for these deposits, which are more desirable due to lower interest rate sensitivity. The cost of public fund deposits increased due to the level of competition from other financial institutions and state investment funds and due to the timing of the investment of these funds in an elevated interest rate environment.

Year ended December 31, 2017 compared with year ended December 31, 2016

The increase in net interest income is primarily due to the increase in the volume of interest-earnings assets and to a lesser extent an increase in yields on interest-earning assets. The increase in average volume of interest-earning assets was primarily due to increases in loans and investment securities partially offset by a decrease in Federal funds sold and other. The increase in interest expense was primarily due to an increase in the average volume and rates of interest bearing liabilities incurred to fund the increased volume of interest-earning assets.

The increase in loan interest income was driven by the increase in average loan volume and a 45 basis point increase in yield on the loan portfolio from 4.98% for the year ended December 31, 2016 to 5.43% for the year ended December 31, 2017. The impact to net interest income from loan fees for the year ended December 31, 2017 was $3.5 million compared to $2.4 million for the year ended December 31, 2016.

Average balances of borrowings from the FHLB increased by $8.7 million from an average balance of $250.3 million for the year ended December 31, 2016 to an average balance of $259.0 million for the year ended December 31, 2017, resulting in an increase in interest expense of $1.5 million. Interest expense on our bank stock loan for the year ended December 31, 217 was $16 thousand compared to $31 thousand for the year ended December 31, 2016. Total cost of interest-bearing liabilities increased 21 basis points to 0.88% for the year ended December 31, 2017 from 0.67% for the year ended December 31, 2016.

The increase in net interest margin during 2017 is largely due to the increase in overall yield on interest earning assets. Also, during the first nine months of 2016, we utilized a “leverage” or “spread” opportunity. The spread opportunity involved borrowing overnight on our line of credit with the FHLB and investing the proceeds in FHLB stock, federal funds sold and other overnight assets, such as money market accounts in other financial institutions, resulting in a decrease in net interest margin of 0.21% for 2016. We terminated the spread opportunity at September 30, 2016. These changes for the year ended December 31, 2017 resulted in an increase in net interest income of $33.4 million, an increase in average interest-earning assets of $653.0 million and an increase in net interest margin of 53 basis points.

Provision for Loan Losses

We maintain an allowance for loan losses for probable incurred credit losses. The allowance for loan losses is increased by a provision for loan losses, which is a charge to earnings, and subsequent recoveries of amounts previously charged-off, but is decreased by charge-offs when the collectability of a loan balance is unlikely. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the loan portfolio, information about specific borrower situations and estimated collateral values, discounted cash flows, economic conditions, and other factors including regulatory guidance. As these factors change, the amount of the loan loss provision changes.

Year ended December 31, 2018 compared with year ended December 31, 2017

The increased provision of $1.0 million was primarily related to the overall increase in volume in our loan portfolio during 2018. Net charge-offs for the year ended December 31, 2018 were $1.0 million compared to net charge-offs of $887 thousand for the year ended December 31, 2017. For the year ended December 31, 2018, gross charge-offs were $3.8 million offset by gross recoveries of $2.8 million. In comparison, gross charge-offs were $2.1 million for the year ended December 31, 2017 offset by gross recoveries of $1.2 million.

Year ended December 31, 2017 compared with year ended December 31, 2016

The increased provision of $834 thousand was primarily related to the overall increase in volume in our loan portfolio during 2017. Net charge-offs for the year ended December 31, 2017 were $887 thousand compared to net charge-offs of $1.2 million for the year ended December 31, 2016. For the year ended December 31, 2017, gross charge-offs were $2.1 million offset by gross recoveries of $1.2 million. In comparison, gross charge-offs were $1.7 million for the year ended December 31, 2016 offset by gross recoveries of $527 thousand.

Non-Interest Income

The primary sources of non-interest income are service charges and fees, debit card income, mortgage banking income, increases in the value of bank owned life insurance, investment referral income, the recovery of zero-basis purchased loans, and net gains on the sale of available-for-sale securities and other securities transactions. Non-interest income does not include loan origination or other loan fees which are recognized as an adjustment to yield using the interest method.

The following table provides a comparison of the major components of non-interest income for the years ended December 31, 2018, 2017 and 2016.

Non-Interest Income
For the Years Ended December 31,

(Dollars in thousands)	2018	2017	2016	2018 vs. 2017 Change	2018 vs. 2017 %	2017 vs. 2016 Change	2017 vs. 2016 %
Service charges and fees	$ 7,250	$ 5,319	$ 3,610	$ 1,931	36.3%	$ 1,709	47.3%
Debit card income	6,178	4,547	2,898	1,631	35.9%	1,649	56.9%
Mortgage banking	1,298	1,955	1,394	(657)	(33.6)%	561	40.2%
Increase in value of bank-owned life insurance	2,199	1,445	1,000	754	52.2%	445	44.5%
Investment referral income	395	353	418	42	11.9%	(65)	(15.6)%
Recovery on zero-basis purchased loans	420	319	102	101	31.7%	217	212.7%
Other	1,994	1,231	565	763	62.0%	666	117.9%
Sub-Total	19,734	15,169	9,987	4,565	30.1%	5,182	51.9%
Net gains on sales and settlement of securities	(9)	271	479	(280)	(103.3)%	(208)	(43.4)%
Total non-interest income	$ 19,725	$ 15,440	$ 10,466	$ 4,285	27.8%	$ 4,974	47.5%

Year ended December 31, 2018 compared with year ended December 31, 2017

The increase in non-interest income was primarily due to increases in service charges and fees, debit card income, other, recovery on zero-basis purchased loans and increase in value of bank owned life insurance partially offset by decreases in mortgage banking fees and net gains on sales of and settlement of securities. Service charges and fees increased $1.9 million during the twelve months ended December 31, 2018, as compared to the same time period during 2017, mainly due to an increase in non-sufficient fund charges. Debit card income was $6.2 million for the year ended December 31, 2018, an increase of $1.6 million, or 35.9%, from $4.5 million for the year ended December 31, 2017. Mortgage banking decreased largely due to a decrease in proceeds received from investors on the sale of mortgage loans. In connection with acquisitions, we received the rights to certain loans that were previously charged off by the acquired bank. At acquisition, there was no expectation of future cash flows from these previously charged-off loans and thus they were assigned a zero basis. Subsequent to the acquisitions, we have received cash payments on several of these loans. No interest has been accrued as cash flow payments have not been expected prior to receipt. Cash receipts on these zero-basis loans totaled $420 thousand and $319 thousand for the years ended December 31, 2018 and 2017.

Year ended December 31, 2017 compared with year ended December 31, 2016

The increase in non-interest income was primarily due to increases in service charges and fees, debit card income, other, mortgage banking income, increase in value of bank owned life insurance and recovery on zero-basis purchased loans partially offset by decreases in net gains on sales of and settlement of securities and investment referral income. Service charges and fees increased $1.7 million during the twelve months ended December 31, 2017, as compared to the same time period during 2016, mainly due to an increase in non-sufficient fund charges. Debit card income was $4.5 million for the year ended December 31, 2017, an increase of $1.6 million, or 56.9%, from $2.9 million for the year ended December 31, 2016. Mortgage banking increased largely due to an increase in proceeds received from investors on the sale of mortgage loans. In connection with acquisitions, we received the rights to certain loans that were previously charged off by the acquired bank. At acquisition, there was no expectation of future cash flows from these previously charged-off loans and thus they were assigned a zero basis. Subsequent to the acquisitions, we have received cash payments on several of these loans. No interest has been accrued as cash flow payments have not been expected prior to receipt. Cash receipts on these zero-basis loans totaled $319 thousand and $102 thousand for the years ended December 31, 2017 and 2016. For the year ended December 31, 2017 gains on sales of and settlement of securities amounted to $271 thousand. For the year ended December 31, 2016 gains on sales of and settlement of securities amounted to $893 thousand. During 2016, the Company recorded an other-than-temporary impairment loss in the amount of $414 thousand, resulting in a net gain on sales of and settlement of securities of $479 thousand. The impairment loss reflected the difference between the amortized cost of the Company's investment in AgriBank's 9.125% subordinated notes, due July 2019 and the fair value attributed to AgriBank's redemption call of those notes.

Non-Interest Expense

The following table provides a comparison of the major components of non-interest expense for the years ended December 31, 2018, 2017 and 2016.

Non-Interest Expense
For the Year Ended December 31,

				2018 vs. 2017		2017 vs. 2016	
(Dollars in thousands)	2018	2017	2016	Change	%	Change	%
Salaries and employee benefits	$ 48,018	$ 33,960	$ 21,951	$ 14,058	41.4%	$ 12,009	54.7%
Net occupancy and equipment	8,126	6,305	4,586	1,821	28.9%	1,719	37.5%
Data processing	8,094	4,927	3,568	3,167	64.3%	1,359	38.1%
Professional fees	3,402	2,363	2,075	1,039	44.0%	288	13.9%
Advertising and business development	3,002	2,105	1,198	897	42.6%	907	75.7%
Telecommunications	1,775	1,191	1,101	584	49.0%	90	8.2%
FDIC insurance	1,536	945	894	591	62.5%	51	5.7%
Courier and postage	1,183	935	683	248	26.5%	252	36.9%
Free nationwide ATM expense	1,355	932	672	423	45.4%	260	38.7%
Amortization of core deposit intangibles	2,443	1,025	413	1,418	138.3%	612	148.2%
Loan expense	1,005	993	599	12	1.2%	394	65.8%
Other real estate owned	(71)	523	386	(594)	(113.6)%	137	35.5%
Other	7,057	5,907	3,597	1,150	19.5%	2,310	64.2%
Sub-Total	86,925	62,111	41,723	24,814	40.0%	20,388	48.9%
Merger expenses	7,462	5,352	5,294	2,110	39.4%	58	1.1%
Loss on extinguishment of debt	—	—	58	—	—%	(58)	(100.0)%
Total non-interest expense	$ 94,387	$ 67,463	$ 47,075	$ 26,924	39.9%	$ 20,388	43.3%

Year ended December 31, 2018 compared with year ended December 31, 2017

This increase in non-interest expense was primarily due to increases in salaries and employee benefits of $14.1 million, data processing of $3.2 million, merger expenses of $2.1 million, net occupancy and equipment of $1.8 million, amortization of core deposit intangible of $1.4 million, other of $1.2 million and professional fees of $1.0 million. These items and other changes in the various components of non-interest expense are discussed in more detail below.

Salaries and employee benefits: There was a $14.1 million increase in salaries for year ended December 31, 2018 as compared to year ended December 31, 2017. This increase reflects the full year effect of the addition of staff related to the March 2017 Prairie State Bancshares, Inc. (“Prairie”) merger; the addition of staff related to the November 2017 Eastman National Bancshares, Inc. (“Eastman”) and Cache Holdings, Inc. (“Cache”) mergers; the May 2018 addition of staff related to the mergers with KBC and Adams; the August 2018 addition of staff related to the merger with City Bank, as well as additions to corporate and operations staff indirectly attributable to acquisitions and our growth. In addition, during the same time period, there was an increase in benefits cost of $1.1 million. Included in salaries and employee benefits is share-based compensation expense of $2.3 million for the year ended December 31, 2018 and $552 thousand for the year ended December 31, 2017, largely attributable to organic and acquired growth.

Net occupancy and equipment: Net occupancy and equipment includes expenses related to the use of premises and equipment, such as depreciation, operating lease payments, repairs and maintenance, insurance, property taxes and utilities, net of incidental rental income of excess facilities. The majority of the increase is due to a full year of expenses related to the mergers with Prairie, Eastman and Cache and the subsequent addition of eight branch locations. In addition, due to the mergers of KBC, Adams and City Bank, there were six additional branches added in May 2018 and one additional branch added in August 2018.

Data processing: The increase was principally due to increased debit card processing costs as usage increased and software license expense.

Professional fees: The increase of $1.0 million, or 44.0%, principally is due to an increase in legal fees of $415 thousand, accounting fees of $250 thousand and consulting fees of $243 thousand.

Other real estate owned: As detailed in "NOTE 5 – OTHER REAL ESTATE OWNED" in the Notes to Consolidated Financial Statements other real estate owned expenses, including provision for unrealized losses and loss on sale of other real estate were $849 thousand for the year ended December 31, 2018. For the year ended December 31, 2017, other real estate owned expenses, including provision for unrealized losses were $644 thousand offset by gains on the sale of other real estate owned of $121 thousand.

Other: Other non-interest expenses consist of subscriptions; memberships and dues; employee expenses including travel, meals, entertainment and education; supplies; printing; insurance; account related losses; correspondent bank fees; customer program expenses; losses net of gains on the sale of fixed assets; losses net of gains on the sale of repossessed assets other than real estate; and other operating expenses such as settlement of claims.

Merger expenses: Merger expenses include legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Merger expenses also include data processing conversion costs and costs associated with the integration of personnel, processes, facilities and employee bonuses. For the year ended December 31, 2018, merger expenses of $4.4 million are related to the KBC merger, $1.2 million are related to the Adams merger and $1.4 million are related to the City Bank merger. For the year ended December 31, 2017, merger expenses of $926 thousand are related to the Prairie merger, $2.9 million are related to the Eastman merger and $1.5 million are related to the Cache merger.

Year ended December 31, 2017 compared with year ended December 31, 2016

This increase in non-interest expense was primarily due to increases in salaries and employee benefits of $12.0 million, other of $2.3 million, net occupancy and equipment of $1.7 million, data processing of $1.4 million, advertising and business development of $907 thousand and amortization of core deposit intangible of $612 thousand. These items and other changes in the various components of non-interest expense are discussed in more detail below.

Salaries and employee benefits: There was a $8.4 million increase in salaries for year ended December 31, 2017 as compared to year ended December 31, 2016, which reflects the full year effect of the Community First merger, the March 2017 addition of staff related to the merger with Prairie, the November 2017 addition of staff related to the mergers with Eastman and Cache, as well as additions to corporate and operations staff indirectly attributable to acquisitions and our growth. In addition, during the same time period, there was an increase in benefits cost of $1.1 million. Included in salaries and employee benefits is share-based compensation expense of $552 thousand in the year ended December 31, 2017 and $268 thousand for the year ended December 31, 2016.

Net occupancy and equipment: Net occupancy and equipment includes expenses related to the use of premises and equipment, such as depreciation, operating lease payments, repairs and maintenance, insurance, property taxes and utilities, net of incidental rental income of excess facilities. The majority of the increase is due to a full year of expenses related to the acquisition of Community First and the subsequent addition of five branches in Northern Arkansas. In addition, due to the acquisitions of Prairie, Eastman and Cache, there were three additional branches added in March 2017 and five additional branches added in November 2017.

Data processing: The increase was principally due to increased debit card processing costs as usage increased.

Professional fees: The increase of $288 thousand, or 13.9%, principally is due to an increase in consulting fees of $130 thousand, legal fees of $110 thousand and regulatory assessments of $60 thousand partially offset by a decrease in accounting fees of $12 thousand.

Other real estate owned: As detailed in "NOTE 5 – OTHER REAL ESTATE OWNED" in the Notes to Consolidated Financial Statements other real estate owned expenses, including provision for unrealized losses were $644 thousand for the year ended December 31, 2017, offset by gains on the sale of other real estate owned of $121 thousand. For the year ended December 31, 2016 other real estate owned expenses, including provision for unrealized losses were $542 thousand offset by gains on the sale of other real estate owned of $156 thousand.

Other: Other non-interest expenses consist of subscriptions; memberships and dues; employee expenses including travel, meals, entertainment and education; supplies; printing; insurance; account related losses; correspondent bank fees; customer program expenses; losses net of gains on the sale of fixed assets; losses net of gains on the sale of repossessed assets other than real estate; and other operating expenses such as settlement of claims.

Merger expenses: Merger expenses include legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Merger expenses also include data processing conversion costs and costs associated with the integration of personnel, processes, facilities and employee bonuses. For the year ended December 31, 2017, merger expenses of $926 thousand are related to the Prairie merger, $2.9 million are related to the Eastman merger and $1.5 million are related to the Cache merger. For the

year ended December 31, 2016, merger expenses of $4.6 million are related to the Community First merger and $678 thousand are related to the Prairie merger.

Loss on extinguishment of debt: In the first quarter of 2016, we repaid our bank stock loan and wrote off the deferred debt issuance costs associated with this loan resulting in a $58 thousand loss on debt extinguishment.

Efficiency Ratio

The efficiency ratio is a supplemental financial measure utilized in the internal evaluation of our performance and is not defined under GAAP. Our efficiency ratio is computed by dividing non-interest expense, excluding merger expenses and loss on debt extinguishment by the sum of net interest income and non-interest income, excluding net gains on sales of and settlement of securities and gain on acquisition. Generally, an increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. The ratio defined under GAAP that is most comparable to the efficiency ratio is non-interest expense to net interest income plus non-interest income which is discussed in "Results of Operations – Non-GAAP Financial Measures."

The Company's non-interest expense to net interest income plus non-interest income improved from year ended December 31, 2017 to December 31, 2018 primarily due to increased net interest income and non-interest income, partially offset by increased non-interest expense as discussed in "Results of Operations – Non-GAAP Financial Measures." The efficiency ratio improved during the same time period due to increased net interest income and non-interest income as discussed in "Results of Operations – Net Interest Income and Net Interest Margin Analysis" and "Results of Operations – Non-Interest Income."

Improvement in the Company's non-interest expense to net interest income plus non-interest income when comparing year ended December 31, 2017 to year ended December 31, 2016 was primarily due to increased net interest income and non-interest income, partially offset by increased non-interest expense as discussed in "Results of Operations – Non-GAAP Financial Measures." The improvement in the efficiency ratio from year ended December 31, 2016 to December 31, 2017 was primarily due to increased net interest income and non-interest income as discussed in "Results of Operations – Net Interest Income and Net Interest Margin Analysis" and "Results of Operations – Non-Interest Income."

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, the amount non-deductible expenses and available tax credits.

Year ended December 31, 2018 compared with year ended December 31, 2017

The effective income tax rate for the year ended December 31, 2018 was 22.4% as compared to the U.S. statutory rate of 21.0%. The effective income tax rate for the year ended December 31, 2017 was 33.5% as compared to the U.S. statutory rate of 35.0%. As detailed in "NOTE 15 – INCOME TAXES" in the Notes to Consolidated Financial Statements, the income tax rates differed from the U.S. statutory rates primarily due to non-taxable income, non-deductible expenses and tax credits. The 2017 provision for income taxes also includes a fourth quarter charge of $1.1 million related to Tax Reform. In 2017, the reduction of the U.S. statutory tax rate from 35% to 21%, provided for by Tax Reform, resulted in the re-measurement of the Company's net deferred tax assets.

Year ended December 31, 2017 compared with year ended December 31, 2016

The effective income tax rates for the years ended December 31, 2017 and 2016 were 33.5% and 32.4%, as compared to the U.S. statutory rate of 35.0%. The income tax rate differed from the U.S. statutory rate primarily due to non-taxable income, non-deductible expenses and tax credits. In addition, beginning with the first quarter 2017 adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, excess tax benefits, generated when the tax return deductible compensation expense exceeds cumulative compensation cost recognized for financial reporting purposes, have been recorded in the period in which they occur. Prior to adoption of ASU 2016-09, excess tax benefits associated with the exercise of stock options were recognized as additional paid in capital. The 2017 provision for income taxes also includes a fourth quarter charge of $1.1 million related to Tax Reform. The reduction of the U.S. statutory tax rate from 35% to 21%, provided for by Tax Reform, resulted in the re-measurement of the Company's net deferred tax assets.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this annual report have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Financial Condition

Overview

Our total assets increased $891.2 million, or 28.1%, from $3.17 billion at December 31, 2017, to $4.06 billion at December 31, 2018. The increase in total assets was primarily from increases in net loans of $455.2 million, $219.5 million in investment securities, $140.6 million in cash and cash equivalents and $26.8 million in goodwill. Included in the above changes are the assets of KBC, Adams and City Bank, which totaled $336.1 million, $119.8 million and $163.3 million at the time of such mergers. Our total liabilities increased $809.4 million, or 28.9%, from $2.80 billion at December 31, 2017 to $3.61 billion at December 31, 2018. The increase in total liabilities was primarily from increases in total deposits of $741.4 million and FHLB advances of $37.2 million. Our total stockholders' equity increased $81.8 million, or 21.9%, from $374.1 million at December 31, 2017 to $455.9 million at December 31, 2018.

Loan Portfolio

Loans are our largest category of earning assets and typically provide higher yields than other types of earning assets. Excluding acquisitions of KBC, Adams and City Bank, gross loans held for investment increased by $138.9 million, or 6.6%, compared with December 31, 2017. Overall growth consisted of $326.2 million, or 71.2%, from commercial real estate, $67.8 million, or 14.8%, from residential real estate, $61.0 million, or 13.3%, from commercial and industrial, $52.8 million, or 11.5%, from agricultural real estate, and $13.5 million, or 3.0%, from consumer, partially offset by a reduction of $61.8 million, or 13.5%, from real estate construction and $1.4 million, or 0.3%, from agricultural. We also had an increase in loans classified as held for sale of $619 thousand, or 26.3%, from December 31, 2017 to December 31, 2018.

Our loan portfolio consists of various types of loans, most of which are made to borrowers located in the Wichita, Kansas City and Tulsa MSAs, as well as various community markets throughout Arkansas, Kansas, Missouri and Oklahoma. Although the portfolio is diversified and generally secured by various types of collateral, the majority of our loan portfolio consists of commercial and industrial and commercial real estate loans and a substantial portion of our borrowers' ability to honor their obligations is dependent on local economic conditions in Arkansas, Kansas, Missouri and Oklahoma. As of December 31, 2018, there was no concentration of loans to any one type of industry exceeding 10% of total loans.

At December 31, 2018, gross total loans were 82.5% of deposits and 63.4% of total assets. At December 31, 2017, gross total loans were 88.9% of deposits and 66.8% of total assets.

The organic, or non-acquired, growth in our loan portfolio is attributable to our ability to attract new customers from other financial institutions and overall growth in our markets. Our lending staff has been successful in building banking relationships with new customers. Several new lenders have been hired in our markets, and these employees have been successful in transitioning their former clients and attracting new clients. Lending activities originate from the efforts of our lenders, with an emphasis on lending to individuals, professionals, small to medium-sized businesses and commercial companies located in the Wichita, Kansas City and Tulsa MSAs, as well as community markets in Arkansas, Kansas, Missouri and Oklahoma.

The following table summarizes our loan portfolio by type of loan as of the dates indicated.

Composition of Loan Portfolio

	December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial and industrial	$ 582,527	22.6%	$ 521,510	24.6%	$ 348,465	25.2%	$262,032	27.3%	$183,100	25.2%
Real estate loans:										
Commercial real estate	1,127,646	43.8%	801,491	37.8%	478,815	34.6%	343,096	35.7%	323,676	44.6%
Real estate construction	124,346	4.8%	186,170	8.8%	114,293	8.3%	53,921	5.6%	40,420	5.6%
Residential real estate	444,540	17.3%	376,705	17.8%	338,387	24.4%	250,216	26.1%	134,455	18.5%
Agricultural real estate	139,332	5.4%	86,486	4.1%	38,331	2.8%	18,180	1.9%	17,083	2.3%
Total real estate loans	1,835,864	71.3%	1,450,852	68.5%	969,826	70.1%	665,413	69.3%	515,634	71.0%
Consumer	62,894	2.4%	49,361	2.4%	40,902	2.9%	17,103	1.8%	7,875	1.1%
Agricultural	94,123	3.7%	95,547	4.5%	24,412	1.8%	15,807	1.6%	19,267	2.7%
Total loans held for investment	$2,575,408	100.0%	$2,117,270	100.0%	$1,383,605	100.0%	$960,355	100.0%	$725,876	100.0%
Total loans held for sale	$ 2,972	100.0%	$ 2,353	100.0%	$ 4,830	100.0%	$ 3,504	100.0%	$ 897	100.0%
Total loans held for investment (net of allowances)	$2,563,954	100.0%	$2,108,772	100.0%	$1,377,173	100.0%	$954,849	100.0%	$719,913	100.0%

Commercial and industrial: Commercial and industrial loans include loans used to purchase fixed assets, to provide working capital, or meet other financing needs of the business. Of the $61.0 million in growth during 2018, $19.3 million, or 31.6%, was a result of loans acquired through KBC, $1.6 million, or 2.6%, was a result of loans acquired through Adams and $8.6 million, or 14.1%, was a result of loans acquired through City Bank. The remainder was a combination of loan originations within our target markets and changes in the balances of revolving lines of credit, partially offset by reductions of broadly syndicated shared national credit originations and mortgage finance loan participations.

Commercial real estate: Commercial real estate loans include all loans secured by nonfarm nonresidential properties and by multifamily residential properties, as well as 1-4 family investment-purpose real estate loans. Of the $326.2 million in growth during 2018, $96.5 million, or 30.0%, was a result of loans acquired through KBC, $78.2 million, or 24.0%, was a result of loans acquired through Adams and $18.9 million, or 5.8%, was a result of loans acquired through City Bank. The remainder was a combination of loan originations within our target market and changes in the balances of revolving lines of credit.

Real estate construction: Real estate construction loans include loans made for the purpose of acquisition, development, or construction of real property, both commercial and consumer.

Residential real estate: Residential real estate loans include loans secured by primary or secondary personal residences. The acquisitions of KBC, Adams and City Bank added $3.0 million, $5.0 million and $28.5 million in residential real estate loans during the year ended December 31, 2018. During 2017, we purchased one $14.8 million pool of mortgage loans. Pools of mortgages are occasionally purchased to expand our loan portfolio and provide additional loan income.

Agricultural real estate, Agricultural, Consumer and other: Agricultural real estate loans are loans related to farmland. Agricultural loans are primarily operating lines subject to annual farming revenues including productivity/yield of the agricultural commodities produced. Consumer loans are generally secured by consumer assets, but may be unsecured. These three loan pools represent 11.7% of our overall loan portfolio.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with predetermined interest rates and floating rates in each maturity range as of December 31, 2018 and December 31, 2017 are summarized in the following tables.

Loan Maturity and Sensitivity to Changes in Interest Rates

	As of December 31, 2018			
	One year or less	After one year through five years	After five years	Total
	(Dollars in thousands)			
Commercial and industrial	$ 246,601	$ 203,705	$ 132,221	$ 582,527
Real Estate:				
Commercial real estate	173,064	609,356	345,226	1,127,646
Real estate construction	59,816	42,144	22,386	124,346
Residential real estate	11,712	14,888	417,940	444,540
Agricultural real estate	50,635	46,759	41,938	139,332
Total real estate	295,227	713,147	827,490	1,835,864
Consumer	10,879	42,570	9,445	62,894
Agricultural	71,003	19,583	3,537	94,123
Total	$ 623,710	$ 979,005	$ 972,693	$ 2,575,408
Loans with a predetermined fixed interest rate	327,086	629,327	340,452	1,296,865
Loans with an adjustable/floating interest rate	296,624	349,678	632,241	1,278,543
Total	$ 623,710	$ 979,005	$ 972,693	$ 2,575,408

	As of December 31, 2017			
	One year or less	After one year through five years	After five years	Total
	(Dollars in thousands)			
Commercial and industrial	$ 189,416	$ 198,951	$ 133,143	$ 521,510
Real Estate:				
Commercial real estate	116,797	464,987	219,707	801,491
Real estate construction	76,406	76,153	33,611	186,170
Residential real estate	14,852	12,788	349,065	376,705
Agricultural real estate	32,241	32,354	21,891	86,486
Total real estate	240,296	586,282	624,274	1,450,852
Consumer	9,113	31,997	8,251	49,361
Agricultural	70,427	19,746	5,374	95,547
Total	$ 509,252	$ 836,976	$ 771,042	$ 2,117,270
Loans with a predetermined fixed interest rate	271,132	532,308	212,711	1,016,151
Loans with an adjustable/floating interest rate	238,120	304,668	558,331	1,101,119
Total	$ 509,252	$ 836,976	$ 771,042	$ 2,117,270

Nonperforming Assets

The following table presents information regarding nonperforming assets at the dates indicated.

Nonperforming Assets

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Nonaccrual loans	$ 33,203	$ 40,276	$ 22,693	$ 8,197	$ 10,790
Accruing loans 90 or more days past due	18	—	—	35	39
Restructured loans-accruing	—	—	—	—	—
OREO acquired through foreclosure, net	6,372	7,907	8,656	5,811	4,754
Total nonperforming assets	$ 39,593	$ 48,183	$ 31,349	$ 14,043	$ 15,583
Ratios:					
Nonperforming assets to total assets	0.97%	1.52%	1.43%	0.89%	1.33%
Nonperforming assets to total loans plus OREO	1.53%	2.27%	2.25%	1.45%	2.13%

Nonperforming assets ("NPAs") include loans on nonaccrual status, accruing loans 90 or more days past due, restructured loans, and other real estate acquired through foreclosure.

The nonperforming loans at December 31, 2018 consisted of 357 separate credits and 243 separate borrowers. We had seven nonperforming loan relationships each with outstanding balances exceeding $1.0 million as of December 31, 2018. Of the increase in nonperforming assets, $8.4 million was the direct result of the KBC, Adams and City Bank mergers. There are several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by lenders, and also monitor delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Potential Problem Loans

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are analyzed individually and classified based on credit risk. Consumer loans are considered pass credits unless downgraded due to payment status or reviewed as part of a larger credit relationship. We use the following definitions for risk ratings:

Pass: Loans classified as pass do not have any noted weaknesses and repayment of the loan is expected. These loans are considered unclassified.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of our credit position at some future date. These loans are considered classified.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. These loans are considered classified.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These loans are considered classified.

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which management has concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. Potential problem loans are assigned a grade of special mention or substandard. At December 31, 2018, the Company had $52.9 million in potential problem loans which were not included in either non-accrual or 90 days past due categories, compared to $21.1 million at December 31, 2017.

The risk category of loans by class of loans is as follows for December 31, 2018 and December 31, 2017.

Risk Category of Loans by Class

	As of December 31, 2018		
	Unclassified	Classified	Total
	(Dollars in thousands)		
Commercial and industrial	$ 553,045	$ 29,482	$ 582,527
Real estate:			
Commercial real estate	1,091,577	36,069	1,127,646
Real estate construction	123,438	908	124,346
Residential real estate	439,184	5,356	444,540
Agricultural real estate	129,285	10,047	139,332
Total real estate	1,783,484	52,380	1,835,864
Consumer	61,976	918	62,894
Agricultural	90,848	3,275	94,123
Total	$ 2,489,353	$ 86,055	$ 2,575,408

	As of December 31, 2017		
	Unclassified	Classified	Total
	(Dollars in thousands)		
Commercial and industrial	$ 500,141	$ 21,369	$ 521,510
Real estate:			
Commercial real estate	787,894	13,597	801,491
Real estate construction	183,564	2,606	186,170
Residential real estate	370,151	6,554	376,705
Agricultural real estate	77,084	9,402	86,486
Total real estate	1,418,693	32,159	1,450,852
Consumer	48,777	584	49,361
Agricultural	88,261	7,286	95,547
Total	$ 2,055,872	$ 61,398	$ 2,117,270

At December 31, 2018, loans considered unclassified decreased to 96.7% of total loans from 97.1% of total loans at December 31, 2017. Approximately $17.9 million of loans considered classified increase were a direct result of the KBC, Adams and City Bank mergers.

In accordance with applicable regulation, appraisals or evaluations are required to independently value real estate and, as an important element, to consider when underwriting loans secured in part or in whole by real estate. The value of real estate collateral provides additional support to the borrower's credit capacity.

With respect to potential problem loans, all monitored and under-performing loans are reviewed and evaluated to determine if they are impaired. If we determine that a loan is impaired, then we evaluate the borrower's overall financial condition to determine the need, if any, for possible write downs or appropriate additions to the allowance for loan losses based on the unlikelihood of full repayment of principal and interest in accordance with the contractual terms or the net realizable value of the pledged collateral.

Allowance for loan losses

Please see "Critical Accounting Policies – Allowance for Loan Losses" for additional discussion of our allowance policy.

In connection with our review of the loan portfolio, risk elements attributable to particular loan types or categories are considered when assessing the quality of individual loans. For additional information see "NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the Notes to Consolidated Financial Statements.

Purchased credit impaired loans: Please see "Critical Accounting Policies – Allowance for Loan Losses" for additional discussion of our purchased credit impaired loans policy. For additional information about our purchased credit impaired loans see "NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES" in the Notes to Consolidated Financial Statements.

Analysis of allowance for loan and lease losses: At December 31, 2018, the allowance for loan losses totaled $11.5 million, or 0.44% of total loans. At December 31, 2017 the allowance for loan losses aggregated $8.5 million, or 0.40% of total loans.

The allowance for loan losses on loans collectively evaluated for impairment totaled $9.6 million, or 0.38%, of the $2.51 billion in loans collectively evaluated for impairment at December 31, 2018, compared to an allowance for loan losses of $7.6 million, or 0.37%, of the $2.07 billion in loans collectively evaluated for impairment at December 31, 2017, and an allowance for loan losses of $5.8 million, or 0.43%, of the $1.36 billion in loans collectively evaluated for impairment at December 31, 2016. The increase in allowance as a percentage of loans collectively evaluated for impairment from December 31, 2017 to December 31, 2018 was primarily related to changes in applied loss factors which are based in part on historical loss experience as well as changes in the composition and quality of our loans collectively evaluated for impairment. The decrease in allowance as a percentage of loans collectively evaluated for impairment from December 31, 2016 to December 31, 2017, was largely due to $533.7 million in loans which were purchased at a discount as part of mergers during 2017.

Net losses as a percentage of average loans decreased to 0.05% for the twelve months ended December 31, 2018 as compared to 0.06% for the twelve months ended December 31, 2017, and 0.12% for the twelve months ended December 31, 2016.

There have been no material changes to our accounting policies related to our allowance for loan and lease loss methodology during 2018 and 2017.

The following table presents, as of and for the periods indicated, an analysis of the allowance for loan and lease losses and other related data.

Allowance for Loan and Lease Losses

	As of and for the Twelve Months ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Average loans outstanding[(1)]	$2,146,177	$1,573,402	$1,006,745	$813,970	$680,982
Gross loans outstanding at end of period[(1)]	$2,575,408	$2,117,270	$1,383,605	$960,355	$725,876
Allowance for loan and lease losses at beginning of the period	$ 8,498	$ 6,432	$ 5,506	$ 5,963	$ 5,614
Provision for loan losses	3,961	2,953	2,119	3,047	1,200
Charge-offs:					
Commercial and industrial	(118)	(431)	(226)	(1,468)	(46)
Real estate:					
Commercial real estate	(121)	(271)	(557)	(1,668)	(241)
Real estate construction	(1,658)	—	—	—	—
Residential real estate	(293)	(350)	(299)	(296)	(668)
Agricultural real estate	(93)	(16)	(23)	—	—
Consumer	(1,431)	(1,025)	(584)	(309)	(360)
Agricultural	(43)	(42)	(31)	—	(19)
Total charge-offs	(3,757)	(2,135)	(1,720)	(3,741)	(1,334)
Recoveries:					
Commercial and industrial	53	35	41	23	36
Real estate:					
Commercial real estate	304	660	201	126	72
Real estate construction	1,565	—	—	2	16
Residential real estate	254	243	165	31	139
Agricultural real estate	19	13	23	—	—
Consumer	545	291	96	53	218
Agricultural	12	6	1	2	2
Total recoveries	2,752	1,248	527	237	483
Net recoveries (charge-offs)	(1,005)	(887)	(1,193)	(3,504)	(851)
Allowance for loan and lease losses at end of the period	$ 11,454	$ 8,498	$ 6,432	$ 5,506	$ 5,963
Ratio of ALLL to end of period loans[(1)]	0.44%	0.40%	0.46%	0.57%	0.82%
Ratio of net charge-offs (recoveries) to average loans	0.05%	0.06%	0.12%	0.43%	0.13%

(1) Excluding loans held for sale.

The following table shows the allocation of the allowance for loan losses among our loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan or lease category.

Analysis of the Allowance for Loan and Lease Losses

	December 31,									
	2018		2017		2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)									
Balance of allowance for loan and lease losses applicable to:										
Commercial and industrial	$ 2,707	23.6%	$2,136	25.1%	$1,881	29.3%	$1,366	24.8%	$1,559	26.1%
Real estate:										
Commercial real estate	3,108	27.1%	2,047	24.1%	1,808	28.1%	1,728	31.4%	2,298	38.5%
Real estate construction	1,554	13.6%	693	8.2%	612	9.5%	323	5.9%	599	10.0%
Residential real estate	2,320	20.3%	2,262	26.6%	1,765	27.4%	1,824	33.1%	1,190	20.0%
Agricultural real estate	391	3.4%	319	3.8%	35	0.6%	29	0.5%	148	2.5%
Consumer	1,070	9.3%	768	9.0%	266	4.1%	187	3.4%	81	1.4%
Agricultural	304	2.7%	273	3.2%	65	1.0%	49	0.9%	88	1.5%
Total allowance for loan and lease losses	$11,454	100.0%	$8,498	100.0%	$6,432	100.0%	$5,506	100.0%	$5,963	100.0%

Management believes that the allowance for loan and lease losses at December 31, 2018, was adequate to cover probable incurred losses in the loan portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at December 31, 2018.

The Company has a credit relationship with two related borrowers whose principals have been customers of the Bank since 2011. At December 31, 2018, the total outstanding to these borrowers was $28,261. The relationship which consists of several loans to several related entities and categorized as commercial real estate and commercial and industrial was performing and current at its most recent renewal in 2018 and was current at December 31, 2018. Despite one of the borrower's entities showing negative cash flow, the other entity generated enough earnings before interest, tax, depreciation and amortization and had cash flow to support the obligations of the overall relationship. Subsequent to December 31, 2018, the borrowing entities filed for Chapter 11 Bankruptcy protection based on overall obligations in excess of their willingness to invest more capital. The Company believes as of the date of the filing our Form 10-K that repayment of the principal and interest at December 31, 2018 is ultimately expected based on the values of the entities at sale. The Company has not recorded any specific credit impairment on the relationship, but the Company cannot be certain of future events that could impact the overall valuation of the assets or the price the assets will bring at disposition.

Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. At December 31, 2018, securities represented 22.6% of total assets compared with 22.0% at December 31, 2017.

At the date of purchase, debt and equity securities are classified into one of two categories, held-to-maturity or available-for-sale. We do not purchase securities for trading purposes. At each reporting date, the appropriateness of the classification is reassessed. Investments in debt securities are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and the accretion of discounts, in the financial statements only if management has the positive intent and ability to hold those securities to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale and measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as accumulated comprehensive income or loss until realized. Interest earned on securities is included in total interest and dividend income. Also included in total interest and dividend income are dividends received on stock investments in the Federal Reserve Bank of Kansas City and the FHLB of Topeka. These stock investments are stated at cost.

The following table summarizes the amortized cost and fair value by classification of available-for-sale securities as of the dates shown.

Available-For-Sale Securities

	December 31,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
U.S. government-sponsored entities	$ —	$ —	$ —	$ —	$ 4,766	$ 4,782
Residential mortgage-backed securities (issued by government-sponsored entities)	173,503	168,875	163,374	161,591	88,257	86,703
Corporate	—	—	—	—	3,000	3,039
Small Business Administration loan pools	—	—	—	—	210	223
State and political subdivisions	—	—	195	195	499	499
Equity securities	—	—	500	486	500	486
Total available-for-sale securities	$ 173,503	$ 168,875	$ 164,069	$ 162,272	$ 97,232	$ 95,732

The following table summarizes the amortized cost and fair value by classification of held-to-maturity securities as of the dates shown.

Held-To-Maturity Securities

	December 31,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
U.S. government-sponsored entities	$ 3,873	$ 3,860	$ 998	$ 985	$ 998	$ 965
Residential mortgage-backed securities (issued by government-sponsored entities)	567,766	560,467	383,875	379,582	338,749	334,733
Corporate	22,993	22,901	22,991	23,346	12,988	13,099
Small Business Administration loan pools	1,746	1,728	2,048	2,034	2,398	2,382
State and political subdivisions	151,978	151,033	125,550	126,797	110,576	109,977
Total held-to-maturity securities	$ 748,356	$ 739,989	$ 535,462	$ 532,744	$ 465,709	$ 461,156

At December 31, 2018, 2017 and 2016, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which aggregate adjusted cost exceeded 10% of the consolidated stockholders' equity at the reporting dates noted.

The following tables summarize the contractual maturity of debt securities and their weighted average yields as of December 31, 2018 and December 31, 2017. 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. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately. Available-for-sale securities are shown at fair value and held-to-maturity securities are shown at cost, adjusted for the amortization of premiums and the accretion of discounts.

	December 31, 2018									
	Due in one year or less		Due after one year through five years		Due after five years through 10 years		Due after 10 years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
	(Dollars in thousands)									
Available-for-sale securities:										
Residential mortgage-backed securities (issued by government- sponsored entities)	$ —	—%	$ 10	3.14%	$ 98	2.38%	$168,767	3.04%	$168,875	3.04%
Total available-for-sale securities	—	—%	10	3.14%	98	2.38%	168,767	3.04%	168,875	3.04%
Held-to-maturity securities:										
U.S. government-sponsored entities	1,886	2.43%	1,987	2.21%	—	—%	—	—%	3,873	2.32%
Residential mortgage-backed securities (issued by government-sponsored entities)	1,373	2.23%	8,280	2.76%	72,060	2.83%	486,053	3.10%	567,766	3.05%
Corporate	—	—%	5,166	2.74%	17,827	5.21%	—	—%	22,993	4.66%
Small Business Administration loan pools	—	—%	—	—%	—	—%	1,746	2.61%	1,746	2.61%
State and political subdivisions[1]	4,540	4.06%	29,259	2.72%	36,378	3.04%	81,801	3.31%	151,978	3.15%
Total held-to-maturity securities	7,799	3.34%	44,692	2.71%	126,265	3.23%	569,600	3.12%	748,356	3.12%
Total debt securities	$ 7,799	3.34%	$ 44,702	2.71%	$126,363	3.23%	$738,367	3.10%	$917,231	3.10%

(1) The calculated yield is not calculated on a tax equivalent basis.

	December 31, 2017									
	Due in one year or less		Due after one year through five years		Due after five years through 10 years		Due after 10 years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
	(Dollars in thousands)									
Available-for-sale securities:										
Residential mortgage-backed securities (issued by government- sponsored entities)	$ 3,461	1.82%	$ 20	3.14%	$ 171	2.38%	$157,939	2.90%	$161,591	2.87%
State and political subdivisions[1]	195	1.11%	—	—%	—	—%	—	—%	195	1.11%
Total available-for-sale securities	3,656	1.78%	20	3.14%	171	2.38%	157,939	2.90%	161,786	2.87%
Held-to-maturity securities:										
U.S. government-sponsored entities	—	—%	998	1.65%	—	—%	—	—%	998	1.65%
Residential mortgage-backed securities (issued by government-sponsored entities)	—	—%	9,203	2.60%	23,979	2.52%	350,693	2.86%	383,875	2.83%
Corporate	—	—%	5,236	2.74%	17,755	4.69%	—	—%	22,991	4.25%
Small Business Administration loan pools	—	—%	—	—%	—	—%	2,048	2.61%	2,048	2.61%
State and political subdivisions[1]	2,871	2.35%	21,022	3.02%	25,351	3.16%	76,306	3.23%	125,550	3.16%
Total held-to-maturity securities	2,871	2.35%	36,459	2.84%	67,085	3.34%	429,047	2.93%	535,462	2.97%
Total debt securities	$ 6,527	2.03%	$ 36,479	2.84%	$ 67,256	3.33%	$586,986	2.92%	$697,248	2.95%

(1) The calculated yield is not calculated on a tax equivalent basis.

Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and which are principally issued by federal agencies such as Ginnie Mae, Fannie Mae and Freddie Mac. Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Premiums and discounts on mortgage-backed securities are amortized and accreted over the expected life of the security and may be impacted by prepayments. As such, mortgage-backed securities which are purchased at a premium will generally produce decreasing net yields as interest rates drop because home owners tend to refinance their mortgages resulting in prepayments and an acceleration of premium amortization. Securities purchased

at a discount will reflect higher net yields in a decreasing interest rate environment as prepayments result in an acceleration of discount accretion.

The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected lives because borrowers have the right to prepay their obligations at any time. Monthly pay downs on mortgage-backed securities cause the average lives of these securities to be much different than their stated lives. At December 31, 2018 and December 31, 2017, 88.9% and 93.2% of the mortgage-backed securities held by us had contractual final maturities of more than ten years with a weighted average life of 5.0 years and 5.5 years and a modified duration of 4.4 years and 4.8 years.

Deposits

Our lending and investing activities are primarily funded by deposits. A variety of deposit accounts are offered with a wide range of interest rates and terms including demand, savings, money market and time deposits. We rely primarily on competitive pricing policies, convenient locations, comprehensive marketing strategy and personalized service to attract and retain these deposits.

The following table shows our composition of deposits at December 31, 2018, 2017 and 2016.

Composition of Deposits

	December 31,									
	2018		2017		2016		2018 vs. 2017		2017 vs. 2016	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Change	%	Change	%
	(Dollars in thousands)									
Non-interest-bearing demand	$ 503,831	16.1%	$ 366,530	15.4%	$ 207,668	12.8%	$137,301	37.5%	$158,862	76.5%
Interest-bearing demand and NOW accounts	671,320	21.5%	550,577	23.1%	492,583	30.2%	120,743	21.9%	57,994	11.8%
Savings and money market	940,390	30.1%	688,407	28.9%	377,042	23.1%	251,983	36.6%	311,365	82.6%
Time	1,007,906	32.3%	776,499	32.6%	553,158	33.9%	231,407	29.8%	223,341	40.4%
Total deposits	$3,123,447	100.0%	$2,382,013	100.0%	$1,630,451	100.0%	$741,434	31.1%	$751,562	46.1%

The following table shows deposits assumed in 2018 mergers, as of the time of such mergers.

	KBC Merger		Adams Merger		City Bank Merger	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Non-interest-bearing demand	$ 53,105	18.4%	$ 27,518	28.3%	$ 30,947	24.4%
Interest-bearing demand and NOW accounts	80,873	28.0%	8,168	8.4%	24,783	19.6%
Savings and money market	75,462	26.2%	26,484	27.3%	32,763	25.8%
Time	78,912	27.4%	34,954	36.0%	38,360	30.2%
Total deposits	$288,352	100.0%	$ 97,124	100.0%	$126,853	100.0%

The following table shows deposits assumed in 2017 mergers, as of the time of such mergers.

	Prairie Merger		Eastman Merger		Cache Merger	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Non-interest-bearing demand	$ 24,585	19.6%	$ 60,363	26.9%	$ 26,108	9.4%
Interest-bearing demand and NOW accounts	3,082	2.5%	49,862	22.2%	3,004	1.1%
Savings and money market	52,395	41.8%	86,877	38.8%	117,480	42.1%
Time	45,291	36.1%	27,009	12.1%	132,114	47.4%
Total deposits	$125,353	100.0%	$224,111	100.0%	$278,706	100.0%

The following table shows the average deposit balance and average rate paid on deposits for the year ended December 31, 2018, 2017 and 2016.

Average Deposit Balances and Average Rate Paid

	December 31,					
	2018		2017		2016	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(Dollars in thousands)					
Non-interest-bearing demand	$ 426,409	—%	$ 257,346	—%	$ 169,514	—%
Interest-bearing demand and NOW accounts	602,506	0.77%	452,652	0.51%	314,515	0.28%
Savings and money market	798,820	1.01%	501,386	0.55%	317,394	0.41%
Time	836,298	1.56%	647,998	1.18%	453,045	1.07%
Total deposits	$2,664,033		$1,859,382		$1,254,468	

Included in savings and money market deposits at December 31, 2018, 2017 and 2016 are brokered deposit balances of $21.0 million, $23.2 million, and $2.7 million. These balances represent customer funds placed in the Insured Cash Sweep ("ICS") service that allows Equity Bank to break large money-market deposits into smaller amounts and place them in a network of other ICS banks to ensure that FDIC insurance coverage is gained on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the ICS service are Equity Bank's customer relationships that management views as core funding. Brokered certificates of deposit as of December 31, 2018, 2017, and 2016 were $131.1 million, $63.0 million, and $5.4 million. Of these balances, $131.1 million at December 31, 2018, $63.0 million at December 31, 2017 and $5.4 million at December 31, 2016 were customer funds placed in the Certificate of Deposit Account Registry Service ("CDARS") program. CDARS allows Equity Bank to break large deposits into smaller amounts and place them in a network of other CDARS banks to ensure that FDIC insurance coverage is gained on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are Equity Bank's customer relationships that management views as core funding.

The following table provides information on the maturity distribution of time deposits of $100,000 or more as of December 31, 2018 and December 31, 2017.

	December 31,	
	2018	2017
	(Dollars in thousands)	
3 months or less	$ 157,033	$ 133,588
Over 3 through 6 months	160,259	98,523
Over 6 through 12 months	183,862	131,098
Over 12 months	204,991	155,457
Total Time Deposits	$ 706,145	$ 518,666

Other Borrowed Funds

We utilize borrowings to supplement deposits to fund our lending and investing activities. Short-term borrowing and long-term borrowing consist of funds from the FHLB, federal funds purchased and retail repurchase agreements, a bank stock loan and subordinated debentures.

The following table presents our short-term borrowings at the dates indicated.

(Dollars in thousands)	Federal funds purchased and retail repurchase agreements	FHLB Line of Credit
December 31, 2018:		
Amount outstanding at year-end	$ 50,068	$ 368,770
Weighted average interest rate at year-end	0.28%	2.65%
Maximum month-end balance during the year	$ 53,815	$ 603,280
Average balance outstanding during the year	$ 43,536	$ 424,708
Weighted average interest rate during the year	0.26%	2.09%
December 31, 2017:		
Amount outstanding at year-end	$ 37,492	$ 347,692
Weighted average interest rate at year-end	0.23%	1.47%
Maximum month-end balance during the year	$ 43,843	$ 347,692
Average balance outstanding during the year	$ 25,823	$ 258,951
Weighted average interest rate during the year	0.25%	1.12%
December 31, 2016:		
Amount outstanding at year-end	$ 20,637	$ 259,588
Weighted average interest rate at year-end	0.27%	0.72%
Maximum month-end balance during the year	$ 25,382	$ 292,756
Average balance outstanding during the year	$ 22,599	$ 250,282
Weighted average interest rate during the year	0.26%	0.56%

Federal funds purchased and retail repurchase agreements: We have available federal funds lines of credit with our correspondent banks. Retail repurchase agreements outstanding represent the purchase of interests in securities by banking customers. Retail repurchase agreements are stated at the amount of cash received in connection with the transaction. We do not account for any of our repurchase agreements as sales for accounting purposes in our financial statements. Repurchase agreements with banking customers are settled on the following business day. See “NOTE 11 – BORROWINGS” in the Notes to Consolidated Financial Statements for additional information.

FHLB advances: FHLB advances include both draws against our line of credit and fixed rate term advances. Each term advance is payable in full at its maturity date and contains provision for prepayment penalties. The Company acquired $17.4 million in term advances in the August 2018 City Bank merger. Our FHLB borrowings are used for operational liquidity needs for originating and purchasing loans, purchasing investments and general operating cash requirements. See “NOTE 11 – BORROWINGS” in the Notes to Consolidated Financial Statements for additional information.

Bank stock loan: The Company maintains a borrowing facility through an unaffiliated financial institution. The terms of the loan require us and Equity Bank to maintain minimum capital ratios and other covenants. The loan and accrued interest may be pre-paid at any time without penalty. In the event of default, the lender has the option to declare all outstanding balances as immediately due. For detailed information, see “NOTE 11 – BORROWINGS” in the Notes to Consolidated Financial Statements.

Subordinated debentures: In conjunction with the 2012 acquisition of First Community, we assumed certain subordinated debentures owed to special purpose unconsolidated subsidiaries that are controlled by us, FCB Capital Trust II and FCB Capital Trust III, (“CTII” and “CTIII,” respectively). In conjunction with the 2016 acquisition of Community First Bancshares, Inc., we assumed certain subordinated debentures owed to special purpose unconsolidated subsidiaries that are controlled by us, Community First (AR) Statutory Trust I, (“CFSTI”). For additional information, see NOTE 11 – BORROWINGS” in the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Liquidity

Market and public confidence in our financial strength and financial institutions in general will largely determine access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for future funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily, weekly, and monthly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations in a cost-effective manner and to meet current and future potential obligations such as loan commitments, lease obligations, and unexpected deposit outflows. In this process, we focus on both assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

During the years ended December 31, 2018, 2017, and 2016 our liquidity needs have primarily been met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Other funding sources include federal funds purchased, retail repurchase agreements, brokered certificates of deposit and borrowings from the FHLB.

Our largest sources of funds are FHLB borrowings and deposits and our largest uses of funds are the origination or purchases of loans and securities purchases. Average loans were $2.39 billion for the year ended December 31, 2018, an increase of 51.5% over average loans of $1.58 billion for the year ended December 31, 2017. Excess deposits are primarily invested in our interest-bearing deposit account with the Kansas City Federal Reserve Bank, investment securities, federal funds sold or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio has a weighted average life of 5.3 years and a modified duration of 4.6 years at December 31, 2018. We believe that our daily funding needs can be met through cash provided by operating activities, payments and maturities on loans and investment securities, our core deposit base and FHLB advances and other borrowing relationships. On March 13, 2017, the Company entered into an agreement with an unaffiliated financial institution that provided for a maximum borrowing facility of $30.0 million, which was subsequently amended on March 11, 2019 to increase the maximum borrowing facility to $40.0 million. This agreement, which is secured by Equity Bank stock, can be used to fund future acquisitions and for general corporate purposes. The outstanding balance on this borrowing facility was $15.5 million for the period ending December 31, 2018.

Cash Flow Overview

During 2018, the net cash used in investing activities was principally related to loan portfolio growth and purchase of investment securities in excess of the cash flows generated by maturities, pay-downs, calls and sales of and settlement of securities. Liquidity provided by operating activities, deposit growth, FHLB borrowings and net borrowings on bank stock loan were used to grow loans by $135.5 million, net purchase of additional investment securities of $54.6 million, purchase additional FHLB and Federal Reserve Bank stock of $1.9 million and purchase premise and equipment of $8.8 million. The purchase of net non-cash assets of Adams Dairy Bancshares, Inc. used $1.4 million, which was funded by available cash, cash and cash equivalents of $12.8 million and $8.8 million from the purchase of Kansas Bank Corporation and City Bank and Trust and $13.0 net additional borrowings on the bank stock loan.

During 2017, the net cash used in investing activities was principally related to loan portfolio growth, purchase of investment securities in excess of the cash flows generated by maturities, pay-downs, calls and sales of and settlement of securities and purchase of additional bank owned life insurance. Liquidity provided by operating activities, FHLB borrowings and deposit growth were used to grow loans by $125.7 million and net purchase of additional investment securities of $74.5 million, purchase additional FHLB and Federal Reserve Bank stock of $4.3 million and purchase premise and equipment of $6.9 million. The purchase of net non-cash assets of Prairie State Bancshares, Inc. and Cache Holdings, Inc. used $6.7 million and $2.9 million, which were funded by available cash, cash and cash equivalents of $6.1 million from the purchase of Eastman National Bancshares, Inc. and $2.5 million additional borrowings on the bank stock loan.

During 2016, the net cash used in investing activities was principally related to loan portfolio growth, the purchase of investment securities in excess of the cash flows generated by maturities, pay-downs, call and sales of and settlement of securities and purchase of additional bank owned life insurance. Liquidity provided by operating activities, FHLB borrowings and deposit growth were used to grow loans by $73.9 million and purchase additional investment securities of $48.2 million, purchase additional FHLB and Federal Reserve Bank stock of $2.0 million and purchase premise and equipment of $2.8 million. The purchase of net non-cash assets of Community First Bancshares, Inc. used $3.0 million of cash and cash equivalents which was funded by available cash and $6.0 million of additional borrowings on the bank stock loan.

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions

include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments.

Our commitments associated with outstanding standby and performance letters of credit and commitments to extend credit expiring by period as of December 31, 2018 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

Credit Extensions and Commitments
December 31, 2018

	1 Year or Less	More Than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
			(Dollars in thousands)		
Standby and performance letters of credit	$ 6,175	$ 1,006	$ 9	$ —	$ 7,190
Commitments to extend credit	252,305	66,779	55,173	96,231	470,488
Total	$ 258,480	$ 67,785	$ 55,182	$ 96,231	$ 477,678

Standby and Performance Letters of Credit: For additional information see “NOTE 22 – COMMITMENTS AND CREDIT RISK” in the Notes to Consolidated Financial Statements.

Commitments to Extend Credit: For additional information see “NOTE 22 – COMMITMENTS AND CREDIT RISK” in the Notes to Consolidated Financial Statements.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2018 (other than securities sold under repurchase agreements). These obligations consist of our future cash payments associated with contractual obligations pursuant to FHLB advances, time deposit contracts, borrowed funds, and non-cancelable future operating leases. Payments related to leases are based on actual payments specified in underlying contracts.

Other contractual obligations represent commitments made by us to make capital investments in limited-liability entities that invest in qualified affordable housing projects. Payments on these obligations are made as requested by the managers of the limited-liability entities, however the table below includes an estimate of the anticipated timing of payments pursuant to these commitments.

Contractual Obligations
December 31, 2018

	1 Year or Less	More Than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
			(Dollars in thousands)		
Certificates and other time deposits	$ 673,838	$ 254,479	$ 78,530	$ 1,059	$ 1,007,906
Subordinated debentures	—	—	—	14,260	14,260
FHLB advances	371,749	5,377	4,732	3,040	384,898
Bank stock loan	1,850	3,200	10,400	—	15,450
Other contractual obligation commitments	651	2,856	417	41	3,965
Non-cancelable future operating leases	655	947	655	1,911	4,168
Total	$ 1,048,743	$ 266,859	$ 94,734	$ 20,311	$ 1,430,647

Capital Resources

Capital management consists of providing equity to support our current and future operations. The federal bank regulators view capital levels as important indicators of an institution’s financial soundness. As a general matter, FDIC-insured depository institutions

and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. As a bank holding company and a state-chartered-Fed-member bank, the Company and Equity Bank are subject to regulatory capital requirements.

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2018 and December 31, 2017, the Company and Equity Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and acquisitions, and capital restoration plans are required.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. As of December 31, 2018, the most recent notifications from the federal regulatory agencies categorized Equity Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Equity Bank must maintain minimum total capital, Tier 1 capital, Common Equity Tier 1 capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Equity Bank's category.

The increase in stockholders' equity was principally attributable to common stock issuance as part of the mergers with Kansas Bank Corporation and Adams Dairy Bancshares, Inc., net of issuance expenses of $31.9 million and 13.2 million, retained earnings of $35.8 million for the year ended December 31, 2018, stock based compensation of $2.5 million, common stock issued upon exercise of stock options of $133 thousand and change in accumulated other comprehensive loss of $1.8 million. For additional information about the Company's capital see "NOTE 16 – REGULATORY MATTERS" in Notes to Consolidated Financial Statements.

Non-GAAP Financial Measures

We identify certain financial measures discussed in this Annual Report on Form 10-K as being "non-GAAP financial measures." In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Annual Report on Form 10-K should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Annual Report on Form 10-K may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Annual Report on Form 10-K when comparing such non-GAAP financial measures.

Tangible Book Value per Common Share and Tangible Book Value Per Diluted Common Share: Tangible book value is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate:
(a) tangible common equity as total stockholders' equity less preferred stock, goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset, net of accumulated amortization and naming rights, net of accumulated amortization;
(b) tangible book value per common share as tangible common equity (as described in clause (a)) divided by shares of common stock outstanding; and (c) tangible book value per diluted common share as tangible common equity (as described in clause (a)) divided by shares of common stock outstanding plus the period-end dilutive effects of vested restricted stock units and the assumed exercise of stock options and redemption of non-vested restricted stock units. For tangible book value, the most directly comparable financial measure calculated in accordance with GAAP is book value.

Management believes that these measures are important to many investors who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity, tangible book value per common share, and diluted tangible book value per common share and compares these values with book value per common share.

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share data)				
Total stockholders' equity	$ 455,941	$ 374,144	$ 257,964	$ 167,233	$ 117,729
Less: preferred stock	—	—	—	16,372	16,359
Less: goodwill	131,712	104,907	58,874	18,130	18,130
Less: core deposit intangibles, net	21,725	10,738	4,715	1,549	1,107
Less: mortgage servicing asset, net	11	17	23	29	—
Less: naming rights, net	1,217	1,260	—	—	—
Tangible common equity	$ 301,276	$ 257,222	$ 194,352	$ 131,153	$ 82,133
Common shares outstanding at period end	15,793,095	14,605,607	11,680,308	8,211,727	6,067,511
Diluted common shares outstanding at period end	16,085,729	14,873,257	11,873,480	8,332,762	6,285,628
Book value per common share	$ 28.87	$ 25.62	$ 22.09	$ 18.37	$ 16.71
Tangible book value per common share	$ 19.08	$ 17.61	$ 16.64	$ 15.97	$ 13.54
Tangible book value per diluted common share	$ 18.73	$ 17.29	$ 16.37	$ 15.74	$ 13.07

Tangible Common Equity to Tangible Assets: Tangible common equity to tangible assets is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) tangible common equity as total stockholders' equity less preferred stock, goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset, net of accumulated amortization and naming rights, net of accumulated amortization; (b) tangible assets as total assets less goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset, net of accumulated amortization and naming rights, net of accumulated amortization; and (c) tangible common equity to tangible assets as tangible common equity (as described in clause (a)) divided by tangible assets (as described in clause (b)). For common equity to tangible assets, the most directly comparable financial measure calculated in accordance with GAAP is total stockholders' equity to total assets.

Management believes that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and total assets while not increasing tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and total assets to tangible assets.

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Total stockholders' equity	$ 455,941	$ 374,144	$ 257,964	$ 167,233	$ 117,729
Less: preferred stock	—	—	—	16,372	16,359
Less: goodwill	131,712	104,907	58,874	18,130	18,130
Less: core deposit intangibles, net	21,725	10,738	4,715	1,549	1,107
Less: mortgage servicing asset, net	11	17	23	29	—
Less: naming rights, net	1,217	1,260	—	—	—
Tangible common equity	$ 301,276	$ 257,222	$ 194,352	$ 131,153	$ 82,133
Total assets	$4,061,716	$3,170,509	$2,192,192	$1,585,727	$1,174,515
Less: goodwill	131,712	104,907	58,874	18,130	18,130
Less: core deposit intangibles, net	21,725	10,738	4,715	1,549	1,107
Less: mortgage servicing asset, net	11	17	23	29	—
Less: naming rights, net	1,217	1,260	—	—	—
Tangible assets	$3,907,051	$3,053,587	$2,128,580	$1,566,019	$1,155,278
Equity / assets	11.23%	11.80%	11.77%	10.55%	10.02%
Tangible common equity to tangible assets	7.71%	8.42%	9.13%	8.37%	7.11%

Return on Average Tangible Common Equity: Return on average tangible common equity is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) average tangible common equity as total average stockholders' equity less average intangible assets and preferred stock; (b) adjusted net income allocable to common stockholders as net income allocable to common stockholders plus amortization of core deposit intangible less tax effect of amortization of core deposit intangible (tax rates used in this calculation were 21% for 2018; 35% for 2017, 2016, 2015 and 2014) (c) return on average tangible common equity as adjusted net income allocable to common stockholders (as described in clause (b)) divided by average tangible common equity (as described in clause (a)). For return on average tangible common equity, the most directly comparable financial measure calculated in accordance with GAAP is return on average equity.

Management believes that this measure is important to many investors in the marketplace because it measures the return on equity, exclusive of the effects of intangible assets on earnings and capital. Goodwill and other intangible assets have the effect of increasing average stockholders' equity and, through amortization, decreasing net income allocable to common stockholders while not increasing average tangible common equity or decreasing adjusted net income allocable to common stockholders.

The following table reconciles, as of the dates set forth below, total average stockholders' equity to average tangible common equity and net income allocable to common stockholders to adjusted net income allocable to common stockholders.

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Total average stockholders' equity	$420,453	$293,798	$168,823	$125,808	$123,181
Less: average intangible assets and preferred stock	139,131	76,320	25,883	19,165	37,924
Average tangible common equity	$281,322	$217,478	$142,940	$106,643	$ 85,257
Net income allocable to common	$ 35,825	$ 20,649	$ 9,373	$ 10,123	$ 8,279
Amortization of intangible assets	2,492	1,070	419	275	363
Less: tax effect of intangible asset amortization	523	375	147	96	127
Adjusted net income allocable to common stockholders	$ 37,794	$ 21,344	$ 9,645	$ 10,302	$ 8,515
Return on average equity (ROAE)	8.52%	7.03%	5.55%	8.19%	7.30%
Return on average tangible common equity (ROATCE)	13.43%	9.81%	6.75%	9.66%	9.99%

Efficiency Ratio: The efficiency ratio is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate the efficiency ratio by dividing non-interest expense, excluding merger expenses and loss on debt extinguishment, by the sum of net interest income and non-interest income, excluding net gains on the sale of available-for-sale securities and other securities transactions, and the net gain on acquisition. The GAAP-based efficiency ratio is non-interest expenses divided by net interest income plus non-interest income.

In management's judgment, the adjustments made to non-interest expense and non-interest income allow investors and analysts to better assess operating expenses in relation to operating revenue by removing merger expenses, loss on debt extinguishment, net gains on the sale of available-for-sale securities and other securities transactions, and the net gain on acquisition.

The following table reconciles, as of the dates set forth below, the efficiency ratio to the GAAP-based efficiency ratio.

	December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Non-interest expense	$ 94,387	$ 67,463	$ 47,075	$ 38,575	$ 35,645
Less: merger expenses	7,462	5,352	5,294	1,691	—
Less: loss on debt extinguishment	—	—	58	316	—
Non-interest expense, excluding merger expenses and loss on debt extinguishment	$ 86,925	$ 62,111	$ 41,723	$ 36,568	$ 35,645
Net interest income	$124,798	$ 86,002	$ 52,597	$ 46,262	$ 41,361
Non-interest income	$ 19,725	$ 15,440	$ 10,466	$ 9,802	$ 8,674
Less: net gains on sales and settlement of securities	(9)	271	479	756	986
Less: net gain on acquisition	—	—	—	682	—
Non-interest income, excluding net gains on security transactions and on acquisition	$ 19,734	$ 15,169	$ 9,987	$ 8,364	$ 7,688
Non-interest expense to net interest income plus non-interest income	65.31%	66.50%	74.65%	68.81%	71.24%
Efficiency Ratio	60.14%	61.39%	66.67%	66.94%	72.67%

Item 7A: Quantitative and Qualitative Disclosure About Market Risk

Our asset-liability policy provides guidelines to management for effective funds management, and management has established a measurement system for monitoring net interest rate sensitivity position within established guidelines.

As a financial institution, the primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic gains or losses due to future interest rate changes. These changes can be reflected in future net interest income and/or fair market values. The objective is to measure the effect on net interest income ("NII") and economic value of equity ("EVE") and to adjust the balance sheet to minimize the inherent risk, while at the same time maximizing income.

We manage exposure to interest rates by structuring the balance sheet in the ordinary course of business. We have the ability to enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk; however, currently we do not have a material exposure to these instruments. We also have the ability to enter into interest rate swaps as an accommodation to our customers in connection with an interest rate swap program. Based upon the nature of its operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset Liability Committee ("ALCO"), which is composed of certain members of senior management, in accordance with policies approved by the Board of Directors. The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO meets monthly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, securities purchase

and sale activities, commitments to originate loans and the maturities of investment securities and borrowings. Additionally, the ALCO reviews liquidity, projected cash flows, maturities of deposits and consumer and commercial deposit activity.

ALCO uses a simulation analysis to monitor and manage the pricing and maturity of assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The simulation tests the sensitivity of NII and EVE. Contractual maturities and repricing opportunities of loans are incorporated in the simulation model as are prepayment assumptions, maturity data and call options within the investment securities portfolio. Assumptions based on past experience are incorporated into the model for non-maturity deposit accounts. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure the future NII and EVE. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

The change in the impact of net interest income from the base case for December 31, 2018 and 2017 was primarily driven by the rate and mix of variable and fixed rate financial instruments, the underlying duration of the financial instruments, and the level of response to changes in the interest rate environment. The increase in the level of negative impact to net interest income in the up interest rate shock scenarios are due to the assumed migration of non-term deposit liabilities to higher rate term deposits; the level of fixed rate investments and loans receivable that will not reprice to higher rates; the variable rate Federal Home Loan Bank advances; the variable rate subordinated debentures, and the non-term deposits that are assumed not to migrate to term deposits that are variable rate and will reprice to the higher rates; and a portion of our portfolio of variable rate loans contain restrictions on the amount of repricing and frequency of repricing that limit the amount of repricing to the current higher rates. These factors result in the negative impacts to net interest income in the up interest rate shock scenarios that are detailed in the table below. In the down interest rate shock scenario the main drivers of the negative impact on net interest income are the decrease in investment income due to the negative convexity features of the fixed rate mortgage backed securities; assumed prepayment of existing fixed rate loans receivable; the downward pricing of variable rate loans receivable; the constraint of the shock on non-term deposits; and the level of term deposit repricing. Our mortgage back security portfolio is comprised of fixed rate investments and as rates decrease the level of prepayments will increase and cause the current higher rate investments to prepay and the assumed reinvestment will be at lower interest rates. Similar to our mortgage backed securities, the model assumes that our fixed rate loans receivable will prepay at a faster rate and reinvestment will occur at lower rates. The level of downward shock on the non-term deposits is constrained to limit the downward shock to a non-zero rate which results in a minimal reduction in the average rate paid. Term deposits repricing will only decrease the average cost paid by a minimal amount due to the assumed repricing occurring at maturity. These factors result in the negative impact to net interest income in the down interest rate shock scenario.

The change in the economic value of equity from the base case for December 31, 2018 and 2017 is due to us being in a liability sensitive position and the level of convexity in our pre-payable assets. Generally, with a liability sensitive position, as interest rates increase the value of your assets decrease faster than the value of liabilities and as interest rates decrease the value of your assets increase at a faster rate than liabilities. However, due to the level of convexity in our fixed rate pre-payable assets we do not experience a similar change in the value of assets in a down interest rate shock scenario. Substantially all investments and approximately 50.4% of loans are pre-payable and fixed rate and as rates decrease the level of modeled prepayments increase. The prepaid principal is assumed to reprice at the assumed current rates, resulting in a smaller positive impact to the economic value of equity.

The following table summarizes the simulated immediate change in net interest income for twelve months as of the dates indicated.

Market Risk

Change in prevailing interest rates	Impact on Net Interest Income December 31, 2018	2017
+300 basis points	(13.0)%	(9.8)%
+200 basis points	(8.0)%	(5.9)%
+100 basis points	(3.8)%	(2.7)%
0 basis points	—	—
-100 basis points	2.0%	0.2%

Change in prevailing interest rates	Impact on Economic Value of Equity December 31, 2018	2017
+300 basis points	(16.2)%	(15.4)%
+200 basis points	(8.2)%	(8.5)%
+100 basis points	(2.5)%	(2.0)%
0 basis points	—	—
-100 basis points	0.3%	(2.7)%

Item 8: Financial Statements and Supplementary Data

Our financial statements and accompanying notes, including the Report of Independent Registered Public Accounting Firm, are set forth beginning on page F-1 of this Annual Report on Form 10-K.

Audited Financial Statements

Description	Page Number
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2018 and 2017	F-2
Consolidated Statements of Income for the Years Ended December 31, 2018, 2017 and 2016	F-3
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016	F-7
Notes to Consolidated Financial Statements	F-9

The following tables present supplementary quarterly financial information (unaudited) for the years ended December 31, 2018 and 2017. This information should be read in conjunction with the historical consolidated financial statements of the Company and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(Dollars in thousands, except per share data)			
Total interest and dividend income	$ 45,580	$ 43,022	$ 38,831	$ 34,123
Total interest expense	12,244	10,267	7,911	6,336
Net interest income	33,336	32,755	30,920	27,787
Provision for loan loss	750	1,291	750	1,170
Net interest income after provision for loan loss	32,586	31,464	30,170	26,617
Total non-interest income	5,449	5,433	4,592	4,251
Total non-interest expense(1)	25,138	23,647	25,975	19,627
Provision for income taxes	2,972	2,928	1,920	2,530
Net income	$ 9,925	$ 10,322	$ 6,867	$ 8,711
Basic earnings per share	$ 0.63	$ 0.65	$ 0.45	$ 0.60
Diluted earnings per share	$ 0.62	$ 0.64	$ 0.44	$ 0.58

	2017			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(Dollars in thousands, except per share data)			
Total interest and dividend income	$ 29,808	$ 24,588	$ 25,082	$ 23,215
Total interest expense	5,219	4,267	3,883	3,322
Net interest income	24,589	20,321	21,199	19,893
Provision for loan loss	503	727	628	1,095
Net interest income after provision for loan loss	24,086	19,594	20,571	18,798
Total non-interest income	4,104	4,035	3,962	3,339
Total non-interest expense	20,718	16,388	15,131	15,226
Provision for income taxes	3,198	2,084	3,048	2,047
Net income	$ 4,274	$ 5,157	$ 6,354	$ 4,864
Basic earnings per share	$ 0.32	$ 0.42	$ 0.52	$ 0.41
Diluted earnings per share	$ 0.31	$ 0.41	$ 0.51	$ 0.40

(1) For additional information see "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 9: Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

None

Item 9A: Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon, and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in ensuring the information relating to the Company (and its consolidated subsidiaries) required to be disclosed by the Company in the reports it files or submits under the Exchange Act was recorded, processed, summarized and reported in a timely manner.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter of the fiscal year for which this Annual Report on Form 10-K is filed that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report on Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm due to the rules of the Securities and Exchange Commission for an Emerging Growth Company.

Item 9B: Other Information

None

Part III

Item 10: Directors, Executive Officer and Corporate Governance

The information required by this item will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be held in April 2019, a copy of which will be filed not later than 120 days after the close of the fiscal year, and is incorporated herein by reference.

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive officers. The full text of our Code of Business Conduct and Ethics is posted on the investor relations page of our website which is located at http://investor.equitybank.com. We will post any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website.

Item 11: Executive Compensation

The information required by this item will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be held in April 2019, a copy of which will be filed not later than 120 days after the close of the fiscal year, and is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be held in April 2019, a copy of which will be filed not later than 120 days after the close of the fiscal year, and is incorporated herein by reference.

Information relating to securities authorized for issuance under our equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5 – Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be held in April 2019, a copy of which will be filed not later than 120 days after the close of the fiscal year, and is incorporated herein by reference.

Item 14: Principal Accounting Fees and Services

The information required by this item will be contained in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be held in April 2019, a copy of which will be filed not later than 120 days after the close of the fiscal year, and is incorporated herein by reference.

Part IV

Item 15: Exhibits, Financial Statement Schedules

a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

The financial statements included as part of this Form 10-K are identified in the index to the Audited Financial Statements appearing in Item 8 of this Form 10-K and which index is incorporated in this Item 15 by reference.

2. Financial Statement Schedules

All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits

The information required by this Item 15(a)(3) is set forth in the Exhibit Index immediately following. The exhibits listed herein will be furnished upon written request to Equity Bancshares, Inc., 7701 East Kellogg Drive, Suite 300, Wichita, Kansas 67207, Attention: Investor Relations, and payment of a reasonable fee that will be limited to our reasonable expense in furnishing such exhibits.

b) Exhibits

The exhibits listed below are incorporated by reference or attached hereto.

Exhibit No.	Description
3.1	Second Amended and Restated Articles of Incorporation of Equity Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on May 3, 2016).
3.2	Amended and Restated Bylaws of Equity Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to Equity Bancshares, Inc.'s Registration Statement on Form S-1, filed with the SEC on October 9, 2015, File No. 333-207351).
4.1	Specimen Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Equity Bancshares, Inc.'s Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on October 27, 2015, File No. 333-207351).
10.1†	Equity Bancshares, Inc. 2006 Non-Qualified Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Amendment No. 1 to Registration Statement on Form S-1, filed with the SEC on October 27, 2015, File No. 333-207351).
10.2†	Equity Bancshares, Inc. Amended and Restated 2013 Stock Incentive Plan (incorporated by reference to Appendix A to Equity Bancshares, Inc.'s Definitive Proxy Statement on Schedule 14A, filed with the SEC on March 28, 2016).
10.3†	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.3 to Equity Bancshares, Inc.'s Registration Statement on Form S-1, filed with the SEC on October 9, 2015, File No. 333-207351).
10.4†	Amended and Restated Employment Agreement, dated November 14, 2016, between Equity Bank, Equity Bancshares, Inc. and Brad S. Elliott (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on November 15, 2016).
10.5†	Amended and Restated Employment Agreement, dated November 14, 2016, among Equity Bank, Equity Bancshares, Inc. and Gregory H. Kossover (incorporated by reference to Exhibit 10.2 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on November 15, 2016).
10.6†	Employment Agreement, dated January 26, 2017, among Equity Bank, Equity Bancshares, Inc. and Wendell Bontrager. (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on January 26, 2017).

Exhibit No.	Description
10.7†	Amended and Restated Employment Agreement, dated December 15, 2014, between Equity Bank, Equity Bancshares, Inc. and Julie Huber (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on May 10, 2017).
10.8	Amended Loan and Security Agreement, dated March 13, 2017, between Equity Bancshares, Inc. and ServisFirst Bank (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on March 16, 2017).
10.9	Second Amendment to Loan and Security Agreement, dated March 12, 2018. Between Equity Bancshares, Inc. and ServisFirst Bank (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2018).
10.10†	Equity Bancshares, Inc. Annual Executive Incentive Plan (incorporated by reference to Appendix A to Equity Bancshares, Inc.'s Definitive Proxy Statement on Schedule 14A, filed with the SEC on March 22, 2017).
10.11†	Form of Performance-vested Restricted Stock Units Award Agreement (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on March 5, 2018).
10.12†	Form of Time-vested Restricted Stock Units Award Agreement (incorporated by reference to Exhibit 10.2 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on March 5, 2018).
10.13†	Employment Agreement, dated March 16, 2018, among Equity Bank and Craig L. Anderson, (incorporated by reference to Exhibit 10.1 to Equity Bancshares, Inc.'s Current Report on Form 8-K, filed with the SEC on March 22, 2018).
21.1*	List of Subsidiaries of Equity Bancshares, Inc.
23.1*	Consent of Crowe LLP
24.1	Powers of Attorney (included on signature page).
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

† Represents a management contract or a compensatory plan or arrangement.

c) Excluded Financial Statements

Not Applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EQUITY BANCSHARES, INC.

By: /s/ Brad S. Elliott
Name: Brad S. Elliott
Title: Chairman and Chief Executive Officer
Date: March 20, 2019

POWER OF ATTORNEY

Each person whose signature appears below appoints Brad S. Elliott and Gregory H. Kossover, and each of them, any of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or would do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Brad S. Elliott Brad S. Elliott	Chairman and Chief Executive Officer (Principal Executive Officer)	March 20, 2019
/s/ Gregory H. Kossover Gregory H. Kossover	Director, Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 20, 2019
/s/ Gary C. Allerheiligen Gary C. Allerheiligen	Director	March 20, 2019
/s/ James L. Berglund James L. Berglund	Director	March 20, 2019
/s/ Jeff A. Bloomer Jeff A. Bloomer	Director	March 20, 2019
/s/ Gregory L. Gaeddert Gregory L. Gaeddert	Director	March 20, 2019
/s/ Jerry P. Maland Jerry P. Maland	Director	March 20, 2019
/s/ Shawn D. Penner Shawn D. Penner	Director	March 20, 2019
/s/ Harvey R. Sorensen Harvey R. Sorensen	Director	March 20, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and the Board of Directors of Equity Bancshares, Inc.
Wichita, Kansas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Equity Bancshares, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

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 Public Company Accounting Oversight Board (United States) ("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 audit 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 included 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.

/s/ Crowe LLP

We have served as the Company's auditor since 2007.

Dallas, Texas
March 20, 2019

EQUITY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(Dollar amounts in thousands, except per share data)

	2018	2017
ASSETS		
Cash and due from banks	$ 192,735	$ 48,034
Federal funds sold	83	4,161
Cash and cash equivalents	192,818	52,195
Interest-bearing time deposits in other banks	4,991	3,496
Available-for-sale securities	168,875	162,272
Held-to-maturity securities, fair value of $739,989 and $532,744	748,356	535,462
Loans held for sale	2,972	2,353
Loans, net of allowance for loan losses of $11,454 and $8,498	2,563,954	2,108,772
Other real estate owned, net	6,372	7,907
Premises and equipment, net	80,442	63,449
Bank-owned life insurance	73,105	68,384
Federal Reserve Bank and Federal Home Loan Bank stock	29,214	24,373
Interest receivable	17,372	12,371
Goodwill	131,712	104,907
Core deposit intangibles, net	21,725	10,738
Other	19,808	13,830
Total assets	$ 4,061,716	$ 3,170,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand	$ 503,831	$ 366,530
Total non-interest-bearing deposits	503,831	366,530
Savings, NOW and money market	1,611,710	1,238,984
Time	1,007,906	776,499
Total interest-bearing deposits	2,619,616	2,015,483
Total deposits	3,123,447	2,382,013
Federal funds purchased and retail repurchase agreements	50,068	37,492
Federal Home Loan Bank advances	384,898	347,692
Bank stock loan	15,450	2,500
Subordinated debentures	14,260	13,968
Contractual obligations	3,965	1,967
Interest payable and other liabilities	13,687	10,733
Total liabilities	3,605,775	2,796,365
Commitments and contingent liabilities, see Notes 22 and 23		
Stockholders' equity, see Note 14		
Common stock	173	161
Additional paid-in capital	379,085	331,339
Retained earnings	101,326	65,512
Accumulated other comprehensive loss	(4,867)	(3,092)
Employee stock loans	(121)	(121)
Treasury stock	(19,655)	(19,655)
Total stockholders' equity	455,941	374,144
Total liabilities and stockholders' equity	$ 4,061,716	$ 3,170,509

See accompanying notes to consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2018, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	2018	2017	2016
Interest and dividend income			
Loans, including fees	$ 137,048	$ 85,662	$ 50,272
Securities, taxable	17,943	12,308	8,111
Securities, nontaxable	4,089	3,375	1,654
Federal funds sold and other	2,476	1,348	1,762
Total interest and dividend income	161,556	102,693	61,799
Interest expense			
Deposits	25,687	12,722	7,042
Federal funds purchased and retail repurchase agreements	114	64	58
Federal Home Loan Bank advances	9,039	2,909	1,400
Bank stock loan	731	16	31
Subordinated debentures	1,187	980	671
Total interest expense	36,758	16,691	9,202
Net interest income	124,798	86,002	52,597
Provision for loan losses	3,961	2,953	2,119
Net interest income after provision for loan losses	120,837	83,049	50,478
Non-interest income			
Service charges and fees	7,250	5,319	3,610
Debit card income	6,178	4,547	2,898
Mortgage banking	1,298	1,955	1,394
Increase in value of bank-owned life insurance	2,199	1,445	1,000
Net gains on sales and settlements of securities	(9)	271	479
Other	2,809	1,903	1,085
Total non-interest income	19,725	15,440	10,466
Non-interest expense			
Salaries and employee benefits	48,018	33,960	21,951
Net occupancy and equipment	8,126	6,305	4,586
Data processing	8,094	4,927	3,568
Professional fees	3,402	2,363	2,075
Advertising and business development	3,002	2,105	1,198
Telecommunications	1,775	1,191	1,101
FDIC insurance	1,536	945	894
Courier and postage	1,183	935	683
Free nationwide ATM cost	1,355	932	672
Amortization of core deposit intangibles	2,443	1,025	413
Loan expense	1,005	993	599
Other real estate owned	(71)	523	386
Loss on debt extinguishment	—	—	58
Merger expenses	7,462	5,352	5,294
Other	7,057	5,907	3,597
Total non-interest expense	94,387	67,463	47,075
Income before income tax	46,175	31,026	13,869
Provision for income taxes	10,350	10,377	4,495
Net income	35,825	20,649	9,374
Dividends and discount accretion on preferred stock	—	—	(1)
Net income allocable to common stockholders	$ 35,825	$ 20,649	$ 9,373
Basic earnings per share	$ 2.33	$ 1.66	$ 1.09
Diluted earnings per share	$ 2.28	$ 1.62	$ 1.07

See accompanying notes to consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2018, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	2018	2017	2016
Net income	$ 35,825	$ 20,649	$ 9,374
Other comprehensive income:			
Unrealized holding gains (losses) arising during the period on available-for-sale securities	(2,845)	(26)	(264)
Amortization of unrealized losses on held-to-maturity securities	453	532	615
Reclassification adjustment for net gains included in net income	—	(271)	(893)
Total other comprehensive income (loss)	(2,392)	235	(542)
Tax effect	606	(90)	211
Other comprehensive income (loss), net of tax	(1,786)	145	(331)
Comprehensive income	$ 34,039	$ 20,794	$ 9,043

See accompanying notes to consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2018, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	Preferred Stock	Common Stock							
	Series C	Shares Outstanding	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Employee Stock Loans	Total Stockholders' Equity
Balance at December 31, 2015	$ 16,372	8,211,727	$ 97	$ 138,077	$ 34,955	$ (2,371)	$ (19,655)	$ (242)	$ 167,233
Net income	—	—	—	—	9,374	—	—	—	9,374
Other comprehensive income, net of tax effects	—	—	—	—	—	(331)	—	—	(331)
Retirement of preferred stock	(16,372)	—	—	—	—	—	—	—	(16,372)
Stock based compensation, see Note 19	—	953	—	553	—	—	—	—	553
Common stock issued upon exercise of stock options	—	7,938	—	125	—	—	—	—	125
Common stock issued in connection with the acquisition of Community First Bancshares, net of issuance expenses of $549	—	2,689,690	27	73,713	—	—	—	—	73,740
Common stock issued in connection with a private placement, net of issuance expenses of $1,382	—	770,000	8	23,635	—	—	—	—	23,643
Cash dividends declared and accrued on preferred stock	—	—	—	—	(1)	—	—	—	(1)
Balance at December 31, 2016	$ —	11,680,308	$ 132	$ 236,103	$ 44,328	$ (2,702)	$ (19,655)	$ (242)	$ 257,964
Net income	—	—	—	—	20,649	—	—	—	20,649
Other comprehensive income, net of tax effects	—	—	—	—	—	145	—	—	145
Other comprehensive income tax rate change impact	—	—	—	—	535	(535)	—	—	—
Stock based compensation, see Note 19	—	3,712	—	1,100	—	—	—	—	1,100
Common stock issued upon exercise of stock options	—	71,434	1	1,214	—	—	—	—	1,215
Repayments on employee stock loans	—	—	—	—	—	—	—	121	121
Common stock issued in connection with the acquisition of Prairie State Bancshares, net of issuance expenses of $329	—	479,465	5	14,908	—	—	—	—	14,913
Common stock issued in connection with the acquisition of Eastman National Bancshares, net of issuance expenses of $300	—	1,179,747	11	38,798	—	—	—	—	38,809
Common stock issued in connection with the acquisition of Cache Holdings, net of issuance expenses of $252	—	1,190,941	12	39,216	—	—	—	—	39,228
Balance at December 31, 2017	$ —	14,605,607	$ 161	$ 331,339	$ 65,512	$ (3,092)	$ (19,655)	$ (121)	$ 374,144

	Preferred Stock	Common Stock							
	Series C	Shares Outstanding	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Employee Stock Loans	Total Stockholders' Equity
Net income	—	—	—	—	35,825	—	—	—	35,825
Other comprehensive income, net of tax effects	—	—	—	—	—	(1,786)	—	—	(1,786)
Stock based compensation, see Note 19	—	1,375	—	2,509	—	—	—	—	2,509
Common stock issued upon exercise of stock options	—	21,201	—	133	—	—	—	—	133
Adoption of ASU 2016-01 reclassifying AFS equity securities with readily determined fair value	—	—	—	—	(11)	11	—	—	—
Common stock issued in connection with the acquisition of Kansas Bank Corporation, net of issuance expenses of $207	—	820,849	8	31,888	—	—	—	—	31,896
Common stock issued in connection with the acquisition of Adams Dairy Bancshares, Inc., net of issuance expenses of $236	—	344,063	4	13,216	—	—	—	—	13,220
Balance at December 31, 2018	$ —	15,793,095	$ 173	$ 379,085	$ 101,326	$ (4,867)	$ (19,655)	$ (121)	$ 455,941

See accompanying notes to consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2018, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	2018	2017	2016
Cash flows from operating activities			
Net income	$ 35,825	$ 20,649	$ 9,374
Adjustments to reconcile net income to net cash from operating activities:			
Stock based compensation	2,509	1,100	553
Depreciation	3,130	2,496	1,764
Provision for loan losses	3,961	2,953	2,119
Net amortization (accretion) of purchase valuation adjustments	(5,586)	(4,518)	615
Amortization (accretion) of premiums and discounts on securities	3,062	2,869	3,049
Amortization of intangible assets	2,492	1,070	419
Deferred income taxes	3,483	2,621	909
Federal Home Loan Bank stock dividends	(1,402)	(760)	(657)
Loss (gain) on sales and valuation adjustments on other real estate owned	(580)	(109)	(112)
Net loss (gain) on sales and settlements of securities	(1)	(271)	(479)
Change in unrealized (gains)/losses on equity securities	11	—	—
Loss (gain) on disposal of premises and equipment	(182)	(5)	(42)
Loss (gain) on sales of foreclosed assets	(17)	32	—
Loss (gain) on sales of loans	(1,072)	(1,640)	(1,198)
Originations of loans held for sale	(48,576)	(73,961)	(51,369)
Proceeds from the sale of loans held for sale	48,271	78,077	51,241
Increase in the value of bank-owned life insurance	(2,199)	(1,445)	(1,000)
Change in fair value of derivatives recognized in earnings	271	(14)	6
Net change in:			
Interest receivable	(2,255)	(1,276)	(544)
Other assets	(5,738)	(673)	885
Interest payable and other liabilities	1,259	433	15
Net cash provided by operating activities	36,666	27,628	15,548
Cash flows (to) from investing activities			
Purchases of available-for-sale securities	(36,007)	(105,749)	(56,391)
Purchases of held-to-maturity securities	(150,479)	(129,016)	(134,745)
Proceeds from sales, calls, pay-downs and maturities of available-for-sale securities	58,739	102,040	90,459
Proceeds from calls, pay-downs and maturities of held-to-maturity securities	73,098	58,245	51,439
Net change in interest-bearing time deposits in other banks	2,742	1,242	1,495
Net change in loans	(135,500)	(125,679)	(73,932)
Purchase of premises and equipment	(8,831)	(6,873)	(2,796)
Proceeds from sale of premises and equipment	1,254	9	209
Proceeds from sale of foreclosed assets	217	165	—
Net redemptions (purchases) of Federal Home Loan Bank and Federal Reserve Bank stock	(1,891)	(4,276)	(1,973)
Proceeds from sale of other real estate owned	4,730	5,461	3,017
Purchase of bank-owned life insurance	—	(15,000)	(14,500)
Proceeds from bank-owned life insurance death benefits	347	—	—
Net cash (paid)/from acquisition of Community First	—	—	(2,971)
Net cash (paid)/from acquisition of Prairie	—	(6,744)	—
Net cash (paid)/from acquisition of Eastman	(55)	6,108	—
Net cash (paid)/from acquisition of Cache	—	(2,857)	—
Net cash (paid)/from acquisition of KBC	12,774	—	—
Net cach (paid)/from acquisition of Adams	(1,385)	—	—
Net cash (paid)/from acquisition of City Bank	8,759	—	—
Net cash (used in) investing activities	(171,488)	(222,924)	(140,689)
Cash flows (to) from financing activities			
Net increase (decrease) in deposits	228,924	123,224	39,082
Net change in federal funds purchased and retail repurchase agreements	12,576	8,177	(4,150)

	2018	2017	2016
Net borrowings (repayments) on Federal Home Loan Bank line of credit	20,078	79,996	114,149
Principal repayments on Federal Home Loan Bank term advances	(1,214)	(1,300)	(25,221)
Borrowings on bank stock loan	22,500	2,500	6,000
Principal repayments on bank stock loan	(9,550)	(1,000)	(33,218)
Proceeds from issuance of common stock, net	—	—	23,643
Proceeds from exercise of employee stock options	133	1,215	112
Principal payments on employee stock loan	—	121	—
Redemption of Series C preferred stock	—	—	(16,372)
Net change in contractual obligations	1,998	(537)	(589)
Dividends paid on preferred stock	—	—	(42)
Excess tax benefits as a result of the exercise of employee stock options	—	—	13
Net cash provided by (used in) financing activities	275,445	212,396	103,407
Net change in cash and cash equivalents	140,623	17,100	(21,734)
Cash and cash equivalents, beginning of period	52,195	35,095	56,829
Ending cash and cash equivalents	$ 192,818	$ 52,195	$ 35,095
Supplemental cash flow information:			
Interest paid	$ 32,667	$ 15,041	$ 8,943
Income taxes paid, net of refunds	9,214	6,438	3,212
Supplemental noncash disclosures:			
Other real estate owned acquired in settlement of loans	2,307	4,562	3,006
Total fair value of assets acquired in purchase of Community First, net of cash	—	—	496,352
Total fair value of liabilities acquired in purchase of Community First	—	—	419,641
Total fair value of assets acquired in purchase of Prairie, net of cash	—	147,247	—
Total fair value of liabilities acquired in purchase of Prairie	—	125,591	—
Total fair value of assets acquired in purchase of Eastman, net of cash	—	267,094	—
Total fair value of liabilities acquired in purchase of Eastman	—	234,337	—
Total fair value of assets acquired in purchase of Cache, net of cash	—	333,140	—
Total fair value of liabilities acquired in purchase of Cache	—	291,056	—
Total fair value of assets acquired in purchase of KBC, net of cash	308,225	—	—
Total fair value of liabilities acquired in purchase of KBC	289,103	—	—
Total fair value of assets acquired in purchase of Adams, net of cash	117,010	—	—
Total fair value of liabilities acquired in purchase of Adams	102,406	—	—
Total fair value of assets acquired in purchase of City Bank, net of cash	135,594	—	—
Total fair value of liabilities acquired in purchase of City Bank	144,353	—	—

See accompanying notes to consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Equity Bancshares, Inc. is a bank holding company, whose principal activity is the ownership and management of its wholly-owned subsidiaries, Equity Bank ("Equity Bank") and EBAC, LLC ("EBAC"). SA Holdings, Inc. is a wholly-owned subsidiary of Equity Bank and was established for the purpose of holding and selling other real estate owned. These entities are collectively referred to as the "Company". All significant intercompany accounts and transactions have been eliminated in consolidation.

Equity Bank is a Kansas state-chartered bank and member of the Federal Reserve (state Fed member bank jointly supervised by both the Federal Reserve Bank of Kansas City and the Office of the Kansas State Bank Commissioner).

The Company is primarily engaged in providing a full range of banking, mortgage banking and financial services to individual and corporate customers generally in Arkansas, Kansas, Missouri and Oklahoma. Equity Bank competes with a variety of other financial institutions including large regional banks, community banks and thrifts as well as credit unions and other non-traditional lenders.

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Equivalents: Cash and cash equivalents include cash, deposits with other financial institutions with original maturities less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, federal funds purchased, retail repurchase agreements, Federal Home Loan Bank advances and contractual obligations.

Securities: Securities are classified as held-to-maturity when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Held-to-maturity securities are carried at amortized cost while securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield basis without anticipating prepayments, except for certain securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. All OTTI related to equity securities is recognized through earnings.

Equity investments with a readily determinable fair value are measured at fair value with changes in fair value recognized in net income. The exit price concept is used when measuring the fair value of financial instruments for disclosure purposes.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are sold with servicing rights released. Gains or losses on loans held for sale are recognized upon completion of the sale and based on the difference between the net sales proceeds and carrying value of the sold loan.

Loans : Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of previous charge-offs and an allowance for loan losses, and for purchased loans, net of unamortized purchase premiums and discounts. Interest income is accrued on the unpaid principal balance.

Purchased Credit Impaired Loans. As a part of acquisitions, the Company acquired certain loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination. These purchased credit impaired loans were recorded at the acquisition date fair value, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Such purchase credit impaired loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of the amount paid are recorded as interest income over the remaining life of the loan (accretable yield). During acquisitions, if the Company expects to liquidate the loan collateral in a relatively short period of time, the Company will assign no value to accretable yield as the impact is immaterial. The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of the expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Nonaccrual Loans. Generally, loans are designated as nonaccrual when either principal or interest payments are 90 days or more past due based on contractual terms unless the loan is well secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed against income. Future interest income may be recorded on a cash basis after recovery of principal is reasonably assured. Nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or on the value of the underlying collateral if the loan is collateral dependent. The Company evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. 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 of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Troubled Debt Restructurings. In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructured loan and classified as impaired. Generally, a nonaccrual loan that is a troubled debt restructuring remains on nonaccrual until such time that repayment of the remaining principal and interest is not in doubt and the borrower has a period of satisfactory repayment performance.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. A loan review process, independent of the loan approval process, is utilized by management to verify loans are being made and administered in accordance with Company policy, to review loan risk grades and potential losses, to verify that potential problem loans are receiving adequate and timely corrective measures to avoid or reduce losses and to assist in the verification of the adequacy of the loan loss reserve. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the sale of the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio and class and is based on the actual loss history experienced by the Company. This actual loss experience is then adjusted by comparing current conditions to the conditions that existed during the loss history. The Company considers the changes related to (i) lending policies, (ii) economic conditions, (iii) nature and volume of the loan portfolio and class, (iv) lending staff, (v) volume and severity of past due, non-accrual, and risk graded loans, (vi) loan review system, (vii) value of underlying collateral for collateral dependent loans, (viii) concentration levels and (ix) effects of other external factors.

The Company considers loan performance and collateral values in assessing risk for each class in the loan portfolio, as follows:

- Commercial and industrial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial and industrial loans are advanced for equipment purchases, to provide working capital or meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans.
- Commercial real estate loans are dependent on the industries tied to these loans, as well as the local commercial real estate market. The loans are secured by real estate and typically appraisals are obtained to support the loan amount. Generally, an evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.
- Residential real estate loans are affected by the local residential real estate market, the local economy and movement in interest rates. The Company evaluates the borrower's repayment ability through a review of credit reports and debt to income ratios. Generally, appraisals are obtained to support the loan amount.
- Agricultural real estate loans are real estate loans related to farmland and are affected by the value of farmland. Generally, the Company evaluates the borrower's ability to repay based on cash flows from farming operations.
- Consumer loans are dependent on the local economy. Consumer loans are generally secured by consumer assets, but may be unsecured. Typically, the Company evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.
- Agricultural loans are primary operating lines subject to annual farming revenues, including productivity and yield of the farm products and market pricing at the time of sale.

There have been no material changes to the Company's accounting policies related to its allowance for loan loss methodology during 2018 and 2017.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance: The Company maintains insurance policies on certain key executives as well as policies from acquired institutions. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. In some cases, the Company has entered into agreements with the insured which would require it to make one-time payments to the insured's beneficiaries if certain conditions exist at the time of death.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated cost to sell when acquired, thereby establishing a new cost basis. Generally, collateral properties are recorded as other real estate owned when the Company takes physical possession. Physical possession of residential real estate collateral occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Other real estate owned properties are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is an estimate and is charged to expense using the straight-line method over the estimated useful lives of the respective assets. The useful lives of buildings and related components are estimated to be 39 years. The useful lives of furniture, fixtures and equipment are estimated to be 4 to 7 years. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Property held for sale is carried at the lower of cost or fair value.

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Federal Reserve Bank and Federal Home Loan Bank Stock: Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") stocks are required investments for institutions that are members of the FRB and FHLB systems. FRB and FHLB stocks are carried at cost, considered restricted securities and are periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Goodwill and Core Deposit Intangibles: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Core deposit intangibles are acquired customer relationships arising from whole bank and branch acquisitions. Core deposit intangibles are initially measured at fair value and then amortized over their estimated useful lives using an accelerated method. The useful lives of the core deposits are estimated to generally be between seven and ten years. Goodwill and core deposit intangibles are assessed at least annually for impairment and any such impairment is recognized and expensed in the period identified. The Company has selected December 31 as the date to perform its annual goodwill impairment test. Goodwill is the only intangible asset with an indefinite useful life.

Credit Related Financial Instruments: Credit related financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Derivatives: The Company is exposed to interest rate risk primarily from the effect of interest rate changes on its interest-earning assets and its sources of funding these assets. The Company will periodically enter into interest rate swaps or interest rate caps/floors to manage certain interest rate risk exposure.

An interest rate swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the manner in which the cash flows will be calculated. Typically, an interest rate swap transaction is used as an exchange of cash flows based on a fixed rate for cash flows based on a variable rate.

In an interest rate cap agreement, a cash flow is generated if the price or interest rate of an underlying variable rises above a certain threshold price or interest rate. In an interest rate floor agreement, a cash flow is generated if the price or interest rate of an underlying variable falls below a certain threshold price or interest rate. Caps and floors are designed as protection against the interest rate on a variable rate asset or liability rising above or falling below a certain level.

At the inception of a derivative contract, the Company designates the derivatives as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"); (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"); or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair value changes. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged unless the derivative meets the criteria to be a financing derivative. All derivatives are recognized in the consolidated balance sheet at their fair values and are reported as either derivative assets or derivative liabilities net of accrued net settlements and collateral, if any. The individual derivative amounts are netted by counterparty when the netting requirements have been met. If these netted values are positive, they are classified as an asset and, if negative, they are classified as a liability.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, at least quarterly, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that are accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company has entered into interest rate cap derivatives to assist with interest rate risk management. These derivatives are not designated as hedging instruments but rather as stand-alone derivatives. The fair values of stand-alone derivatives are included in other assets and other liabilities. Changes in fair value of stand-alone derivatives are recorded through earnings as non-interest income.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities and are computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position will be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is more likely than not to be realized on examination. On December 22, 2017, the President of the United States signed the 2017 Tax Cuts and Jobs Act (Tax Reform) which reduced the U.S. federal statutory corporate income tax rate from 35% to 21% beginning in 2018. On the same date, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, which specifies that reasonable estimates of the income tax effects of Tax Reform should be used to account for the effects of Tax Reform in the period of enactment as required by general accepted accounting principals and also provided for a measurement period that should not extend beyond one year from Tax Reform's enactment date. The Company has appropriately accounted for the effects of Tax Reform.

As a result of Tax Reform enacted in December 2017, the Company recognized a $1,086 re-measurement of its net deferred tax assets, including a re-measurement of $535 in a net deferred tax asset related to unrealized losses on available-for-sale securities and held-to-maturity securities previously transferred from available-for-sale. Because the tax effect of variations in unrealized losses on available-for-sale securities and transferred held-to-maturity securities impact accumulated other comprehensive income, the Company had a stranded tax effect of $535 as of the date of enactment. The Company elected to early adopt ASU 2018-02 resulting in a reclassification of $535 from accumulated other comprehensive income to retained earnings in December 2017.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. During 2016 there was $1 paid to the Missouri Department of Revenue. No such interest or penalties were incurred in 2018 or 2017.

Earnings Per Common Share: Net income, less dividends and discount accretion on preferred stock, equals net income allocable to common stockholders. Basic earnings per common share is net income allocable to common stockholders divided by the weighted average number of common shares and vested restricted stock units outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares of unexercised stock options and unvested restricted stock units.

Share-Based Payments: The Company has share-based payments which are described more fully in a subsequent note. Compensation expense associated with the stock option plan is based on the fair value of the options at the grant date. This compensation is expensed over the periods during which the options vest. Options vest based on the passage of time or the achievement of performance targets, depending on the structure of the related grant.

Compensation expense associated with restricted stock units is based on the fair value of the units at the grant date. This compensation expense is recognized ratably over the service period stipulated in the grant agreement.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and the amortization of unrealized gains and losses on securities transferred to held-to-maturity from available-for-sale.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Additional discussion of loss contingencies at December 31, 2018, is presented in a subsequent note.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the wholly owned subsidiaries to the holding company or by the holding company to stockholders.

Fair Value: Fair values of financial instruments, impaired loans, other real estate owned and property held for sale are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, collateral values and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could materially affect the estimates.

Segment Information: As a community oriented financial institution, substantially all of the Company's operations involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of these banking operations, which constitute the Company's only operating segment for financial reporting purposes.

Revenue Recognition: On January 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain or loss from the transfer of nonfinancial assets, such as other real estate owned ("OREO"). The majority of the Company's revenues come from interest income on financial instruments, including loans, leases, securities and derivatives, which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented with non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges and fees on deposits, debit card income, investment referral income, insurance sales commissions and other non-interest income related to loans and deposits.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606, while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Except for gains or losses from the sale of OREO, all of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. The following table presents the Company's sources of non-interest income for the twelve months ended December 31, 2018 and 2017.

Non-interest income	2018	2017
Service charges and fees	$ 7,250	$ 5,319
Debit card income	6,178	4,547
Mortgage banking[(a)]	1,298	1,955
Increase in bank-owned life insurance[(a)]	2,199	1,445
Net gain (loss) from securities transactions[(a)]	(9)	271
Other[(b)]	2,809	1,903
Total non-interest income	$ 19,725	$ 15,440

[(a)] Not within the scope of ASC 606

[(b)] The Other category includes investment referral income, insurance sales commissions and other non-interest income related to loans and deposits totaling $2,333 for the year ended December 31, 2018, which is within the scope of ASC 606; the remaining balance of $475 for the year ended December 31, 2018, represents recovery on zero-basis purchased loans, income from equity method investments and other remaining items considered insignificant, which is outside the scope of ASC 606.

A description of the Company's revenue streams accounted for under ASC 606 are as follows:

Service Charges and Fees: The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are collected through withdrawal from the customer's account balance.

Debit Card Income: The Company earns debit card income from cardholder transactions conducted through payment processors. Debit card income from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrently with the transaction processing services provided to the cardholder.

Investment Referral Income: Investment referral services are offered through an unaffiliated registered broker-dealer and investment advisor. Investment referral income consists of transaction-based fees (i.e. trade commissions) and account fees (i.e. custodial fees). The service obligation for transaction-based fees relates to processing of individual transactions and is considered earned at the time the transaction occurs. The Company currently records this income when payment is received and at each month end for current-month transactions. Account fees are considered earned over the period for which the fees relate. These fees are received during the first month of each quarter and represent advance payment for the current quarter. These fees are amortized ratably over the three months during the quarter. Therefore, all account-based fees are currently recorded as performance obligations are satisfied.

Insurance Sales Commissions: Insurance commissions are received based on contracts with insurance companies which provide for a percentage of premiums to be paid to the Company in exchange for placement of policies with customers. The commissions generally relate to a period of one year or less. Under certain contracts, the Company may also assist with claims processing, but this performance obligation is considered insignificant compared to the initial placement of the policy. As such, the performance obligation is considered to have been substantially satisfied at the time of policy placement. While this indicates that all related revenue would be appropriately accrued at policy inception, in some cases recognition occurs over the policy period if received in installments from the insurance company. In no cases would this deferral extend beyond 12 months and the effect is considered immaterial compared to recognition at the time of policy placement. The Company also receives commission based on renewals of policies previously placed. However, additional work is required to process the renewals, resulting in future performance obligations to earn the related revenues. In addition, the occurrence of such renewals is not certain as initial policies are generally for one year or less and the fees earned are not determined until the time of renewal, based on underwriting at that time. As such, the Company has determined that accrual of income, for future renewals, is not appropriate.

Other Non-interest Income: Other non-interest income related to loans and deposits is earned when the specific transaction is processed, similar to service charges and fees.

Gain or Loss on Sale of Other Real Estate: Gain or loss on sale of other real estate is reported in non-interest expense and is netted with other real estate expenses. The Company records a gain or loss from the sale of other real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of other real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. As a result, the Company has concluded that ASC 606 will affect the decision to recognize or defer gains on sales of other real estate in circumstances where the Company has financed the sale.

<u>Reclassifications</u>: Some items in the prior year financial statements were reclassified to conform to the current presentation. Management determined the items reclassified are immaterial to the consolidated financial statements taken as a whole and did not result in a change in equity or net income for years ended December 31, 2018, 2017 and 2016.

<u>Recent Accounting Pronouncements:</u> The Company is an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (JOBS Act). Pursuant to the JOBS Act, an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the Financial Accounting Standards Board (FASB) or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. The Company has irrevocably elected to adopt new accounting standards within the public company adoption period.

In February 2016, FASB issued ASU 2016-02, *Leases,* with the intention of improving financial reporting about leasing transactions. The ASU requires all lessees to recognize lease assets and lease liabilities on the balance sheet. Lessor accounting is largely unchanged by the ASU, however disclosures about the amount, timing and uncertainty of cash flows arising from leases are required of both lessees and lessors. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach provides for optional practical expedients when applying the ASU to leases that commenced before the effective date of the ASU. This accounting pronouncement was further modified in July 2018 with the issuance of ASU 2018-11, *Leases – Targeted* Improvements, to allow for another transition method by applying a cumulative-effect adjustment to opening retained earnings at adoption and providing lessors a practical expedient to not separate non-lease and lease components in certain circumstances. The Company adopted this accounting standard effective January 1, 2019, resulting in the Company recording $3,251 in right of use assets and $3,251 of operating lease liabilities.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses,* which will change how the Company measures credit losses for most of its financial assets. This guidance is applicable to loans held for investment, off-balance-sheet credit exposures, such as loan commitments and standby letters of credit, and held-to-maturity investment securities. The Company will be required to use a new forward-looking expected loss model that is anticipated to result in the earlier recognition of allowances for losses. For available-for-sale securities with unrealized losses, the Company will measure credit losses in a manner similar to current practice, but will recognize those credit losses as allowances rather than reductions in the amortized cost of the securities. In addition, the ASU requires significantly more disclosure including information about credit quality by year of origination for most loans. The ASU is effective for the Company beginning in the first quarter of 2020. Generally, the amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently gathering the historical loss data by portfolio and class of financial instrument to estimate the life of financial instrument credit loss and is evaluating the supporting system requirements to routinely generate the reported values. Initial evaluation of this new accounting standard indicates that interest rate fair market value adjustments on loans acquired in acquisitions will not offset the allowance required under this standard and the Company expects that to increase the required allowance; however, at this time, an estimate of the impact on the Company's financial statements is not known.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*, which will simplify the subsequent measurement of goodwill. Goodwill and other intangibles must be assessed for impairment annually. If an entity's assessment determines that the fair value of an entity is less than its carrying amount, including goodwill, currently, the measurement of goodwill impairment requires that the entity's identifiable net assets be valued following procedures similar to determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU 2017-04, goodwill impairment is measured to the extent that the carrying amount of an entity exceeds its fair value. The amendments in this update are effective for the Company's annual goodwill impairment tests beginning in 2020. The amendments will be applied on a prospective basis. The Company is currently evaluating the impact of this new accounting standard but does not expect a material impact to its financial statements.

In March 2017, FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities.* This update shortens the amortization period of certain callable debt securities held at a premium to the earliest call date. The amendments in this update are effective for the Company's fiscal year beginning after December 15, 2018, and interim periods within that fiscal year, however, early adoption is permitted. If early adoption of this update is elected by the Company, any adjustments will be reflected as of the beginning of the fiscal year. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and the Company will be required to provide change in accounting principle disclosures. The Company adopted this accounting standard effective January 1, 2019, which resulted in the Company recording a $1,385 reduction in the amortized cost of investment securities and retained earnings.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities*, with the stated objective of improving the financial reporting of hedging relationships to better reflect the economics of hedging transactions and to simplify the application of hedge accounting. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Potential effects on the Company's current hedging activities include eliminating the requirement to separately measure and report hedge ineffectiveness, providing additional flexibility for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk and easing certain hedge documentation and assessment requirements. The adoption of this accounting standard did not materially impact the Company's financial statements but will result in changes to financial statement disclosures and changes to existing and future swap documentation.

In August 2018, FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* This update requires implementation costs of hosting arrangements that are considered a service contract to be capitalized. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, for all entities. The Company adopted this accounting standard effective October 1, 2018 and resulted in the Company capitalizing $311 of implementation costs during 2018.

NOTE 2 – BUSINESS COMBINATIONS

On August 23, 2018, the Company acquired City Bank and Trust Company ("City Bank"), which had one branch location in Guymon, Oklahoma, from Docking Bancshares, Inc. Results of operations of City Bank were included in the Company's results of operations beginning August 24, 2018. Acquisition-related costs associated with this merger were $1,387 ($1,054 on an after-tax basis) and are included in merger expenses in the Company's income statement for the year ended December 31, 2018.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $5,824. Goodwill resulted from a combination of expected synergies, expansion in western Oklahoma with the addition of one branch location and growth opportunities. The following table summarizes the consideration paid for City Bank and the amounts of the assets acquired and liabilities assumed recognized at the merger date.

Fair value of consideration:		
Cash	$	18,900
	$	18,900
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	27,659
Held-to-maturity securities		44,927
Federal Reserve Bank and Federal Home Loan Bank stock		881
Loans		77,148
Premises and equipment		2,044
Core deposit intangibles		3,360
Other real estate owned		307
Other assets		1,103
Total assets acquired		157,429
Deposits		126,853
Federal Home Loan Bank advances		17,353
Interest payable and other liabilities		147
Total liabilities assumed		144,353
Total identifiable net assets		13,076
Goodwill		5,824
	$	18,900

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the merger date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the merger date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the City Bank merger as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired
Contractually required principal	$ 74,918	$ 5,136
Non-accretable difference (expected losses)	—	(1,156)
Cash flows expected to be collected	74,918	3,980
Accretable yield	(1,750)	—
Fair value of acquired loans	$ 73,168	$ 3,980

The following table presents the carrying value of the loans acquired in the City Bank merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 17,398	$ 2,592	$ 19,990
Commercial and industrial	8,463	158	8,621
Residential real estate	26,716	798	27,514
Agricultural real estate	5,571	—	5,571
Consumer	8,905	244	9,149
Agricultural	6,115	188	6,303
Fair value of acquired loans	$ 73,168	$ 3,980	$ 77,148

On May 4, 2018, the Company acquired 100% of the outstanding common shares of Kansas Bank Corporation ("KBC"), based in Liberal, Kansas. Results of operations of KBC were included in the Company's results of operations beginning May 5, 2018. Acquisition-related costs associated with this merger were $4,360 ($3,349 on an after-tax basis) for year ended December 31, 2018, and $14 ($9 on an after-tax basis) for year ended December 31, 2017, and are included in merger expenses in the Company's income statements.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $14,010. Goodwill resulted from a combination of expected synergies, expansion in southwest Kansas with the addition of five branch locations, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for KBC and the amounts of the assets acquired and liabilities assumed recognized at the merger date.

Fair value of consideration:	
Common Stock	$ 32,103
Cash	14,918
	$ 47,021
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and due from banks	$ 27,899
Available-for-sale securities	22,820
Held-to-maturity securities	92,028
Federal Reserve Bank and Federal Home Loan Bank stock	475
Loans	159,359
Premises and equipment	5,835
Core deposit intangibles	8,080
Other assets	5,618
Total assets acquired	322,114
Deposits	288,352
Interest payable and other liabilities	751
Total liabilities assumed	289,103
Total identifiable net assets	33,011
Goodwill	14,010
	$ 47,021

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the merger date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the merger date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the KBC merger as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired
Contractually required principal	$ 160,526	$ 5,066
Non-accretable difference (expected losses)	—	(2,305)
Cash flows expected to be collected	160,526	2,761
Accretable yield	(3,928)	—
Fair value of acquired loans	$ 156,598	$ 2,761

The following table presents the carrying value of the loans acquired in the KBC merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 94,492	$ 1,975	$ 96,467
Commercial and industrial	18,848	622	19,470
Residential real estate	2,898	—	2,898
Agricultural real estate	22,425	—	22,425
Consumer	3,539	—	3,539
Agricultural	14,396	164	14,560
Fair value of acquired loans	$ 156,598	$ 2,761	$ 159,359

Also on May 4, 2018, the Company acquired 100% of the outstanding common shares of Adams Dairy Bancshares, Inc. ("Adams"), based in Blue Springs, Missouri. Results of operations of Adams were included in the Company's results of operations beginning May 5, 2018. Acquisition-related costs associated with this merger were $1,217 ($961 on an after-tax basis) for year ended December 31, 2018, and $4 ($2 on an after-tax basis) for year ended December 31, 2017, are included in merger expenses in the Company's income statements.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $8,465. Goodwill resulted from a combination of expected synergies, expansion in the Kansas City metro area with the addition of one branch location, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for Adams and the amounts of the assets acquired and liabilities assumed recognized at the merger date.

Fair value of consideration:		
Common stock	$	13,456
Cash		3,960
	$	17,416
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	2,812
Interest bearing time deposits in other banks		4,237
Available-for-sale securities		10,677
Held-to-maturity securities		335
Federal Reserve Bank and Federal Home Loan Bank stock		194
Loans		82,716
Premises and equipment		4,485
Bank-owned life insurance		2,869
Core deposit intangibles		1,990
Other assets		1,042
Total assets acquired		111,357
Deposits		97,124
Federal Home Loan Bank advances		1,000
Interest payable and other liabilities		4,282
Total liabilities assumed		102,406
Total identifiable net assets		8,951
Goodwill		8,465
	$	17,416

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the merger date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the merger date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the Adams merger as of the date of merger.

		Non-Credit Impaired		**Purchased Credit Impaired**
Contractually required principal	$	84,225	$	1,477
Non-accretable difference (expected losses)		—		(238)
Cash flows expected to be collected		84,225		1,239
Accretable yield		(2,748)		—
Fair value of acquired loans	$	81,477	$	1,239

The following table presents the carrying value of the loans acquired in the Adams merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 74,657	$ 820	$ 75,477
Commercial and industrial	1,002	419	1,421
Residential real estate	4,955	—	4,955
Consumer	863	—	863
Fair value of acquired loans	$ 81,477	$ 1,239	$ 82,716

Assuming that the City Bank, KBC and Adams mergers would have taken place on January 1, 2017, total combined revenue would have been $203,860 for year ended December 31, 2018 and $147,222 for year ended December 31, 2017. Net income would have been $49,801 and $27,108 at December 31, 2018 and 2017. The pro forma amounts disclosed exclude merger expense from non-interest expense, which is considered a material non-recurring adjustment. Separate revenue and earnings of the former City Bank, KBC and Adams are not available subsequent to the business combinations.

On November 10, 2017, the Company acquired 100% of the outstanding common shares of Eastman National Bancshares, Inc., based in Newkirk, Oklahoma ("Eastman"). Results of operations of Eastman were included in the Company's results of operations beginning November 11, 2017. Acquisition-related costs associated with this merger are included in merger expenses in the Company's income statement and were $146 ($110 on an after-tax basis) for the year ended December 31, 2018, and $2,925 ($1,920 on an after-tax basis) for the year ended December 31, 2017.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $20,743. Goodwill resulted from a combination of expected synergies, expansion in northern Oklahoma with the addition of four branch locations, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for Eastman and the amounts of the assets acquired and liabilities assumed recognized at the merger date.

Fair value of consideration:	
Common stock	$ 39,109
Cash	8,096
	$ 47,205
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and due from banks	$ 14,698
Available-for-sale securities	59,778
Federal Reserve Bank and Federal Home Loan Bank stock	434
Loans	177,880
Premises and equipment	1,903
Core deposit intangible	4,020
Other real estate owned	41
Interest receivable	998
Other assets	1,047
Total assets acquired	260,799
Deposits	224,111
Federal funds purchased and retail repurchase agreements	8,678
Interest payable and other liabilities	1,548
Total liabilities assumed	234,337
Total identifiable net assets	26,462
Goodwill	20,743
	$ 47,205

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the merger date and were not subject to the guidance relating to purchased credit impaired loans, which

have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the Eastman merger as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired
Contractually required principal	$ 171,788	$ 12,849
Non-accretable difference (expected losses)	—	(4,077)
Cash flows expected to be collected	171,788	8,772
Accretable yield	(2,680)	—
Fair value of acquired loans	$ 169,108	$ 8,772

The following table presents the carrying value of the loans acquired in the Eastman merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 71,917	$ 5,326	$ 77,243
Commercial and industrial	36,645	1,545	38,190
Residential real estate	36,846	458	37,304
Agricultural real estate	7,080	33	7,113
Consumer	5,158	—	5,158
Agricultural	11,462	1,410	12,872
Fair value of acquired loans	$ 169,108	$ 8,772	$ 177,880

Also on November 10, 2017, the Company acquired 100% of the outstanding common shares of Cache Holdings, Inc. (“Cache”), based in Tulsa, Oklahoma. Results of operations of Cache were included in the Company’s results of operations beginning November 11, 2017. Acquisition-related costs associated with this merger are included in merger expenses in the Company’s income statement and were $166 ($124 on an after-tax basis for the year ended December 31, 2018, and $1,483 ($1,031 on an after-tax basis) for the year ended December 31, 2017.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $18,083. Goodwill resulted from a combination of expected synergies, expansion in northern Oklahoma with the addition of one branch location, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for Cache and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair value of consideration:		
Common stock	$	39,480
Cash		12,877
	$	52,357
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	10,273
Federal Reserve Bank and Federal Home Loan Bank stock		2,053
Loans held for investment		300,715
Premises and equipment		4,235
Core deposit intangible		1,580
Bank-owned life insurance		3,883
Interest receivable		778
Other assets		1,813
Total assets acquired		325,330
Deposits		278,706
Federal Home Loan Bank advances		9,402
Bank stock loan		1,000
Interest payable and other liabilities		1,948
Total liabilities assumed		291,056
Total identifiable net assets		34,274
Goodwill		18,083
	$	52,357

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the Cache merger as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired
Contractually required principal	$ 302,460	$ 2,035
Non-accretable difference (expected losses)	—	(371)
Cash flows expected to be collected	302,460	1,664
Accretable yield	(3,017)	(392)
Fair value of acquired loans	$ 299,443	$ 1,272

The following table presents the carrying value of the loans acquired in the Cache merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 199,151	$ 918	$ 200,069
Commercial and industrial	96,682	354	97,036
Residential real estate	2,027	—	2,027
Agricultural real estate	265	—	265
Consumer	1,318	—	1,318
Fair value of acquired loans	$ 299,443	$ 1,272	$ 300,715

On March 10, 2017, the Company acquired 100% of the outstanding common shares of Prairie State Bancshares, Inc., based in Hoxie, Kansas ("Prairie"). Results of operations of Prairie were included in the Company's results of operations beginning March 11, 2017. Acquisition-related costs associated with this merger were $926 ($576 on an after-tax basis) and are included in merger expenses in the Company's income statement for the year ended December 31, 2017.

The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $5,713. Goodwill resulted from a combination of expected synergies, expansion in western Kansas with the addition of three branch locations, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for Prairie and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair value of consideration:	
Common stock	$ 15,242
Cash	12,255
	$ 27,497
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and due from banks	$ 6,579
Available-for-sale securities	3,427
Held-to-maturity securities	971
Federal Reserve Bank and Federal Home Loan Bank stock	198
Loans	129,997
Premises and equipment	2,424
Core deposit intangible	1,448
Other assets	2,331
Total assets acquired	147,375
Deposits	125,353
Interest payable and other liabilities	238
Total liabilities assumed	125,591
Total identifiable net assets	21,784
Goodwill	5,713
	$ 27,497

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered purchased credit impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchased credit impaired loans are not considered reasonably predictable and as such these loans are considered nonaccrual.

The following table presents the best available information about the loans acquired in the Prairie merger as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired
Contractually required principal	$ 123,519	$ 11,430
Non-accretable difference (expected losses)	—	(2,673)
Cash flows expected to be collected	123,519	8,757
Accretable yield	(2,279)	—
Fair value of acquired loans	$ 121,240	$ 8,757

The following table presents the carrying value of the loans acquired in the Prairie merger by class, as of the date of merger.

	Non-Credit Impaired	Purchased Credit Impaired	Total
Commercial real estate	$ 9,224	$ 144	$ 9,368
Commercial and industrial	11,203	974	12,177
Residential real estate	137	—	137
Agricultural real estate	25,593	2,960	28,553
Consumer	1,451	—	1,451
Agricultural	73,632	4,679	78,311
Fair value of acquired loans	$ 121,240	$ 8,757	$ 129,997

Assuming that the Prairie, Eastman and Cache mergers would have taken place on January 1, 2016, total combined revenue would have been $141,843 for year ended December 31, 2017 and $106,969 for year ended December 31, 2016. Net income would have been $32,539 and $24,480 at December 31, 2017 and 2016. The pro forma amounts disclosed exclude merger expense from non-interest expense, which is considered a material non-recurring adjustment. Separate revenue and earnings of the former Prairie, Eastman and Cache are not available subsequent to the business combinations.

NOTE 3 – SECURITIES

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Available-for-sale securities				
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 173,503	$ 12	$ (4,640)	$ 168,875
	$ 173,503	$ 12	$ (4,640)	$ 168,875
December 31, 2017				
Available-for-sale securities				
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 163,374	$ 36	$ (1,819)	$ 161,591
State and political subdivisions	195	—	—	195
Equity securities	500	—	(14)	486
	$ 164,069	$ 36	$ (1,833)	$ 162,272

The amortized cost and fair value of held-to-maturity securities and the related gross unrecognized gains and losses were as follows.

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2018				
Held-to-maturity securities				
U.S. Government-sponsored entities	$ 3,873	$ 7	$ (20)	$ 3,860
Residential mortgage-backed securities (issued by government sponsored entities)	567,766	2,354	(9,653)	560,467
Corporate	22,993	234	(326)	22,901
Small Business Administration loan pools	1,746	—	(18)	1,728
State and political subdivisions	151,978	804	(1,749)	151,033
	$ 748,356	$ 3,399	$ (11,766)	$ 739,989
December 31, 2017				
Held-to-maturity securities				
U.S. Government-sponsored entities	$ 998	$ —	$ (13)	$ 985
Residential mortgage-backed securities (issued by government sponsored entities)	383,875	573	(4,866)	379,582
Corporate	22,991	355	—	23,346
Small Business Administration loan pools	2,048	—	(14)	2,034
State and political subdivisions	125,550	1,694	(447)	126,797
	$ 535,462	$ 2,622	$ (5,340)	$ 532,744

The tables above present unrecognized losses on held-to-maturity securities since date of designation.

The fair value and amortized cost of debt securities at December 31, 2018, by contractual maturity, is 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. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ —	$ —	$ 6,425	$ 6,474
One to five years	—	—	36,413	36,586
Five to ten years	—	—	54,205	54,275
After ten years	—	—	83,547	82,187
Mortgage-backed securities	173,503	168,875	567,766	560,467
Total debt securities	$ 173,503	$ 168,875	$ 748,356	$ 739,989

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was approximately $800,744 at December 31, 2018 and $570,146 at December 31, 2017. At year-end 2018 and 2017, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

The following tables show gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018						
Available-for-sale securities						
Residential mortgage-backed (issued by government-sponsored entities)	$ 48,332	$ (575)	$ 115,844	$ (4,065)	$ 164,176	$ (4,640)
Total temporarily impaired securities	$ 48,332	$ (575)	$ 115,844	$ (4,065)	$ 164,176	$ (4,640)
December 31, 2017						
Available-for-sale securities						
Residential mortgage-backed (issued by government-sponsored entities)	$ 78,884	$ (437)	$ 58,540	$ (1,382)	$ 137,424	$ (1,819)
Equity securities	—	—	486	(14)	486	(14)
Total temporarily impaired securities	$ 78,884	$ (437)	$ 59,026	$ (1,396)	$ 137,910	$ (1,833)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018						
Held-to-maturity securities						
U.S. Government-sponsored entities	$ 1,882	$ (3)	$ 982	$ (17)	$ 2,864	$ (20)
Residential mortgage-backed (issued by government-sponsored entities)	31,270	(356)	294,127	(10,579)	325,397	(10,935)
Corporate	7,500	(326)	5,182	(49)	12,682	(375)
Small Business Administration loan pools	—	—	1,728	(37)	1,728	(37)
State and political subdivisions	40,415	(473)	45,137	(1,561)	85,552	(2,034)
Total temporarily impaired securities	$ 81,067	$ (1,158)	$ 347,156	$ (12,243)	$ 428,223	$ (13,401)
December 31, 2017						
Held-to-maturity securities						
U.S. Government-sponsored entities	$ —	$ —	$ 985	$ (13)	$ 985	$ (13)
Residential mortgage-backed (issued by government-sponsored entities)	147,281	(1,263)	198,239	(5,030)	345,520	(6,293)
Corporate	5,312	(16)	—	—	5,312	(16)
Small Business Administration loan pools	926	(1)	1,108	(38)	2,034	(39)
State and political subdivisions	22,100	(123)	26,387	(439)	48,487	(562)
Total temporarily impaired securities	$ 175,619	$ (1,403)	$ 226,719	$ (5,520)	$ 402,338	$ (6,923)

As of December 31, 2018, the Company held 36 available-for-sale securities and 449 held-to-maturity securities in an unrealized loss position. The tables above present unrealized losses on held-to-maturity securities since the date of their purchase, independent of the impact associated with changes in cost basis upon transfer from the available-for-sale designation to the held-to-maturity designation.

Unrealized losses on securities have not been recognized into income because the security issuers are of high credit quality, management does not intend to sell and it is more likely than not that the Company will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

The proceeds from sales and the associated gains and losses on available-for-sale securities reclassified from other comprehensive income to income are listed below.

	2018	2017	2016
Proceeds	$ —	$ 84,087	$ 70,957
Gross gains	—	271	893
Gross losses	—	—	—
Income tax expense on net realized gains	—	103	342

Included in net gains on sales of and settlement of securities in the Company's consolidated statement of income for 2016 the Company recorded an other-than-temporary impairment loss in the amount of $414. The impairment loss reflects the difference between the amortized cost of the Company's investment in AgriBank 9.125% subordinated notes, due July 2019 and the fair value attributable to AgriBank's redemption call of those notes.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table lists categories of loans at December 31, 2018 and 2017.

	2018	2017
Commercial real estate	$ 1,251,992	$ 987,661
Commercial and industrial	582,527	521,510
Residential real estate	444,540	376,705
Agricultural real estate	139,332	86,486
Consumer	62,894	49,361
Agricultural	94,123	95,547
Total loans	2,575,408	2,117,270
Allowance for loan losses	(11,454)	(8,498)
Net loans	$ 2,563,954	$ 2,108,772

During 2017 the Company purchased one pool of residential real estate loans totaling $14,767. As of December 31, 2018 and 2017, residential real estate loans include $64,558 and $85,868 of purchased residential real estate loans.

Overdraft deposit accounts are reclassified and included in consumer loans above. These accounts totaled $1,279 and $741 at December 31, 2018 and 2017.

The following tables present the activity in the allowance for loan losses by class for the years ended December 31, 2018, 2017 and 2016.

December 31, 2018	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,740	$ 2,136	$ 2,262	$ 319	$ 768	$ 273	$ 8,498
Provision for loan losses	1,832	636	97	146	1,188	62	3,961
Loans charged-off	(1,779)	(118)	(293)	(93)	(1,431)	(43)	(3,757)
Recoveries	1,869	53	254	19	545	12	2,752
Total ending allowance balance	$ 4,662	$ 2,707	$ 2,320	$ 391	$ 1,070	$ 304	$ 11,454

December 31, 2017	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,420	$ 1,881	$ 1,765	$ 35	$ 266	$ 65	$ 6,432
Provision for loan losses	(69)	651	604	287	1,236	244	2,953
Loans charged-off	(271)	(431)	(350)	(16)	(1,025)	(42)	(2,135)
Recoveries	660	35	243	13	291	6	1,248
Total ending allowance balance	$ 2,740	$ 2,136	$ 2,262	$ 319	$ 768	$ 273	$ 8,498

December 31, 2016	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,051	$ 1,366	$ 1,824	$ 29	$ 187	$ 49	$ 5,506
Provision for loan losses	725	700	75	6	567	46	2,119
Loans charged-off	(557)	(226)	(299)	(23)	(584)	(31)	(1,720)
Recoveries	201	41	165	23	96	1	527
Total ending allowance balance	$ 2,420	$ 1,881	$ 1,765	$ 35	$ 266	$ 65	$ 6,432

The following tables present the recorded investment in loans and the balance in the allowance for loan losses by portfolio and class based on impairment method as of December 31, 2018 and 2017.

December 31, 2018	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ 242	$ 185	$ 391	$ 22	$ 62	$ 10	$ 912
Collectively evaluated for impairment	3,695	2,493	1,861	367	925	293	9,634
Purchased credit impaired loans	725	29	68	2	83	1	908
Total	$ 4,662	$ 2,707	$ 2,320	$ 391	$ 1,070	$ 304	$ 11,454
Loan Balance:							
Individually evaluated for impairment	$ 23,323	$ 5,020	$ 4,434	$ 856	$ 678	$ 2,252	$ 36,563
Collectively evaluated for impairment	1,215,173	571,171	437,219	133,415	61,978	89,194	2,508,150
Purchased credit impaired loans	13,496	6,336	2,887	5,061	238	2,677	30,695
Total	$1,251,992	$ 582,527	$444,540	$ 139,332	$ 62,894	$ 94,123	$2,575,408

December 31, 2017	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ 130	$ 87	$ 386	$ 46	$ 56	$ 36	$ 741
Collectively evaluated for impairment	2,582	2,028	1,815	190	712	236	7,563
Purchased credit impaired loans	28	21	61	83	—	1	194
Total	$ 2,740	$ 2,136	$ 2,262	$ 319	$ 768	$ 273	$ 8,498
Loan Balance:							
Individually evaluated for impairment	$ 2,728	$ 7,886	$ 4,829	$ 533	$ 556	$ 1,050	$ 17,582
Collectively evaluated for impairment	971,376	507,894	369,471	82,493	48,802	90,795	2,070,831
Purchased credit impaired loans	13,557	5,730	2,405	3,460	3	3,702	28,857
Total	$ 987,661	$ 521,510	$376,705	$ 86,486	$ 49,361	$ 95,547	$2,117,270

Excluding purchased credit impaired loans, included in the above tables is $827,676, $796,064 and $388,251 of loans purchased at a discount acquired as part of a merger and the discount associated with these loans is $11,372, $7,231 and $3,596 at December 31, 2018, 2017 and 2016.

The following table presents information related to impaired loans, excluding those purchased credit impaired loans which have not deteriorated since acquisition, by class of loans as of and for the year ended December 31, 2018.

December 31, 2018	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 20,940	$ 20,902	$ —	$ 5,652	$ 150
Commercial and industrial	3,446	3,396	—	5,629	66
Residential real estate	533	527	—	744	20
Agricultural real estate	2,038	2,035	—	1,364	18
Consumer	61	55	—	32	2
Agricultural	756	756	—	411	18
Subtotal	27,774	27,671	—	13,832	274
With an allowance recorded:					
Commercial real estate	8,700	7,179	967	2,913	142
Commercial and industrial	2,255	1,911	214	1,068	53
Residential real estate	4,934	4,582	459	4,188	74
Agricultural real estate	261	242	24	429	2
Consumer	1,144	859	145	568	33
Agricultural	162	106	11	418	4
Subtotal	17,456	14,879	1,820	9,584	308
Total	$ 45,230	$ 42,550	$ 1,820	$ 23,416	$ 582

The above table presents interest income for the twelve months ended December 31, 2018. Interest income recognized in the above table was substantially recognized on the cash basis. The recorded investment in loans excludes accrued interest receivable due to immateriality.

The following table presents information related to impaired loans, excluding purchased credit impaired loans which have not deteriorated since acquisition, by portfolio and class of loans as of and for the year ended December 31, 2017.

December 31, 2017	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 1,878	$ 1,567	$ —	$ 1,426	$ 267
Commercial and industrial	8,679	8,020	—	4,572	252
Residential real estate	1,230	969	—	587	29
Agricultural real estate	52	52	—	270	12
Consumer	1	—	—	—	1
Agricultural	7	7	—	83	73
Subtotal	11,847	10,615	—	6,938	634
With an allowance recorded:					
Commercial real estate	4,049	1,597	158	1,813	16
Commercial and industrial	1,310	1,113	108	663	51
Residential real estate	4,868	4,468	447	3,916	95
Agricultural real estate	1,266	1,034	129	527	16
Consumer	677	559	56	448	15
Agricultural	1,798	1,444	37	469	2
Subtotal	13,968	10,215	935	7,836	195
Total	$ 25,815	$ 20,830	$ 935	$ 14,774	$ 829

The above table presents interest income for the twelve months ended December 31, 2017. Interest income recognized in the above table was substantially recognized on the cash basis. The recorded investment in loans excludes accrued interest receivable due to immateriality.

The following tables present the aging of the recorded investment in past due loans as of December 31, 2018 and 2017, by portfolio and class of loans.

December 31, 2018	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days Past Due Still On Accrual	Nonaccrual	Loans Not Past Due	Total
Commercial real estate	$ 1,302	$ 259	$ —	$ 12,768	$1,237,663	$1,251,992
Commercial and industrial	509	2,467	—	6,954	572,597	582,527
Residential real estate	782	2,188	18	5,257	436,295	444,540
Agricultural real estate	—	30	—	4,857	134,445	139,332
Consumer	501	157	—	914	61,322	62,894
Agricultural	186	3	—	2,453	91,481	94,123
Total	$ 3,280	$ 5,104	$ 18	$ 33,203	$2,533,803	$2,575,408

December 31, 2017	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days Past Due Still On Accrual	Nonaccrual	Loans Not Past Due	Total
Commercial real estate	$ 1,284	$ 22	$ —	$ 11,607	$ 974,748	$ 987,661
Commercial and industrial	251	6	—	13,217	508,036	521,510
Residential real estate	1,457	1,176	—	6,148	367,924	376,705
Agricultural real estate	123	—	—	3,993	82,370	86,486
Consumer	359	112	—	559	48,331	49,361
Agricultural	415	—	—	4,752	90,380	95,547
Total	$ 3,889	$ 1,316	$ —	$ 40,276	$2,071,789	2,117,270

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Consumer loans are considered unclassified credits unless downgraded due to payment status or reviewed as part of a larger credit relationship. The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass do not have any noted weaknesses and repayment of the loan is expected. These loans are considered unclassified.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. These loans are considered classified.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. These loans are considered classified.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. These loans are considered classified.

The risk category of loans by class of loans is as follows as of December 31, 2018 and 2017.

December 31, 2018	Unclassified	Classified	Total
Commercial real estate	$ 1,215,015	$ 36,977	$ 1,251,992
Commercial and industrial	553,045	29,482	582,527
Residential real estate	439,184	5,356	444,540
Agricultural real estate	129,285	10,047	139,332
Consumer	61,976	918	62,894
Agricultural	90,848	3,275	94,123
Total	$ 2,489,353	$ 86,055	2,575,408

December 31, 2017	Unclassified	Classified	Total
Commercial real estate	$ 971,458	$ 16,203	$ 987,661
Commercial and industrial	500,141	21,369	521,510
Residential real estate	370,151	6,554	376,705
Agricultural real estate	77,084	9,402	86,486
Consumer	48,777	584	49,361
Agricultural	88,261	7,286	95,547
Total	$ 2,055,872	$ 61,398	2,117,270

Purchased Credit Impaired Loans

The Company has acquired loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The recorded investments in purchased credit impaired loans as of December 31, 2018, 2017 and 2016 were as follows.

	2018	2017	2016
Contractually required principal payments	$ 40,772	$ 41,349	$ 27,413
Discount	(10,077)	(12,492)	(8,914)
Recorded investment	$ 30,695	$ 28,857	$ 18,499

The accretable yield associated with these loans was $3,785, $1,980 and $1,063 as of December 31, 2018, 2017 and 2016. The interest income recognized on these loans was $1,096, $1,785 and $1,237 for the years ended December 31, 2018, 2017 and 2016. For the years ended December 31, 2018 and 2017, there was $714 and $194 provision for loan losses recorded for these loans. There was no provision for loan losses recorded for these loans for the year ended December 31, 2016.

Troubled Debt Restructurings

The company had no material loans modified under troubled debt restructurings as of December 31, 2018 and 2017.

NOTE 5 – OTHER REAL ESTATE OWNED

Changes in other real estate owned for the years ended December 31, 2018 and 2017 were as follows.

	2018	2017
Beginning of year	$ 7,907	$ 8,656
Transfers in	3,228	4,562
Acquired in acquisition	307	41
Net (loss) gain on sales	(75)	121
Proceeds from sales	(4,730)	(5,461)
	6,637	7,919
Additions to valuation reserve	(265)	(12)
Recorded investment	$ 6,372	$ 7,907

Expenses related to other real estate owned for the years ended December 31, 2018, 2017 and 2016 were as follows.

	2018	2017	2016
Net loss (gain) on sales	$ 75	$ (121)	$ (156)
Gain on initial valuation of other real estate properties received	(920)	—	—
Provision for unrealized losses	265	12	44
Operating expenses, net of rental income	509	632	498
	$ (71)	$ 523	$ 386

The balance of real estate owned includes $720 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property at December 31, 2018 and $704 at December 31, 2017. The recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was $2,064 at December 31, 2018 and $2,186 at December 31, 2017.

NOTE 6 – PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows.

	2018	2017
Land	$ 16,988	$ 13,842
Buildings and improvements	62,116	51,703
Furniture, fixtures and equipment	17,217	11,620
	96,321	77,165
Less: accumulated depreciation	(15,879)	(13,716)
Premises and equipment, net	$ 80,442	$ 63,449

Operating Leases

The Company leases certain branch properties under operating leases. Rent expense was $695, $691 and $554 for 2018, 2017 and 2016. Rent commitments at December 31, 2018, before considering renewal options that generally are present, were as follows.

Due in one year or less	$ 655
Due after one year through two years	585
Due after two years through three years	362
Due after three years through four years	352
Due after four years through five years	303
Thereafter	1,911
Total	$ 4,168

NOTE 7 – GOODWILL AND CORE DEPOSIT INTANGIBLES

The assets and liabilities acquired in business combinations are recorded at their estimated fair values at the acquisition date. The excess of the purchase price over the estimated fair value of the net assets for tax free acquisitions is recorded as goodwill, none of which is deductible for tax purposes. The excess of the purchase price over the estimated fair value of the net assets for taxable acquisitions is recorded as goodwill and is deductible for tax purposes.

The carrying basis of goodwill and core deposit intangibles as of and for the years ended December 31, 2018 and 2017 were as follows.

	Goodwill	Core Deposit
Balance as of January 1, 2017	$ 58,874	$ 4,715
Acquired in acquisition	46,033	7,048
Amortization	—	(1,025)
Balance as of December 31, 2017	104,907	10,738
Acquired in acquisition	26,805	13,430
Amortization	—	(2,443)
Balance as of December 31, 2018	$ 131,712	$ 21,725

Estimated amortization expense for each of the following five years and thereafter is listed in the following table.

Expensed in one year or less	$ 2,949
Expensed after one year through two years	2,822
Expensed after two years through three years	2,759
Expensed after three years through four years	2,696
Expensed after four years through five years	2,637
Thereafter	7,862
Total	$ 21,725

NOTE 8 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified affordable housing projects. At December 31, 2018, 2017 and 2016, the balances of the investments in qualified affordable housing projects were $6,689, $4,604 and $4,983. These balances are reflected in the other assets line in the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $3,965, $1,967 and $2,504 at December 31, 2018, 2017 and 2016. The Company expects to fulfill these commitments during the years 2019 through 2033.

During the years ended December 31, 2018, 2017 and 2016, the Company recognized amortization expense of $412, $376 and $296, which was included within pretax income on the consolidated statements of income. Additionally, during the years ended December 31, 2018, 2017 and 2016, the Company recognized tax credits from its investment in affordable housing tax credits of $568, $657 and $625.

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps Designated as Fair Value Hedges

The Company periodically enters into interest rate swaps to hedge the fair value of certain commercial real estate loans. These transactions are designated as fair value hedges. In this type of transaction, the Company typically receives from the counterparty a variable-rate cash flow based on the one-month London Interbank Offered Rate (LIBOR) plus a spread to this index and pays a fixed-rate cash flow equal to the customer loan rate. At December 31, 2018, the portfolio of interest rate swaps had a weighted average maturity of 7.7 years, a weighted average pay rate of 4.94% and a weighted average rate received of 5.10%. At December 31, 2017, the portfolio of interest rate swaps had a weighted average maturity of 8.7 years, a weighted average pay rate of 4.94% and a weighted average rate received of 4.13%.

Stand-Alone Derivatives

The Company periodically enters into interest rate swaps with out borrowers and simultaneously enters into swaps with a counterparty with offsetting terms for the purpose of providing our borrowers long-term fixed rate loans. Neither swap is designated as a hedge and both are marked to market through earnings. At December 31, 2018, this portfolio of interest rate swaps had a weighted average maturity of 7.6 years, weighted average pay rate of 5.18% and a weighted rate received of 5.18%. The Company had none of these swaps at December 31, 2017.

In 2009, the Company purchased an interest rate cap derivative to assist with interest rate risk management. This derivative is not designated as a hedging instrument but rather as a stand-alone derivative. At December 31, 2018, the interest rate cap had a term of 0.9 years and a cap rate of 4.50%. At December 31, 2017, the interest rate cap had a term of 1.9 years and a cap rate of 4.50%.

Reconciliation of Derivative Fair Values and Gains/(Losses)

The notional amount of a derivative contract is a factor in determining periodic interest payments or cash flows received or paid. The notional amount of derivatives serves as a level of involvement in various types of derivatives. The notional amount does not represent the Company's overall exposure to credit or market risk, generally, the exposure is significantly smaller.

The following table shows the notional balances and fair values (including net accrued interest) of the derivatives outstanding by derivative type at December 31, 2018 and December 31, 2017.

	December 31, 2018			December 31, 2017		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	$ 16,743	$ 242	$ —	$ 17,231	$ —	$ 46
Total derivatives designated as hedging relationships	16,743	242	—	17,231	—	46
Derivatives not designated as hedging instruments:						
Interest rate swaps	38,073	690	777	—	—	—
Interest rate caps/floors	2,264	1	—	2,574	1	—
Total derivatives not designated as hedging instruments	40,337	691	777	2,574	1	—
Total	$ 57,080	933	777	$ 19,805	1	46
Cash collateral		(531)	(541)		—	(210)
Netting adjustments		289	289		164	164
Net amount presented in balance sheet		$ 691	$ 525		$ 165	$ —

The following table shows net gains or losses on derivatives and hedging activities for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Derivatives designated as hedging instruments:			
Interest rate swaps	$ —	$ —	$ —
Total net gain (loss) related to fair value hedge ineffectiveness	—	—	—
Derivatives not designated as hedging instruments:			
Economic hedges:			
Interest rate swaps	202	—	—
Interest rate caps/floors	—	(1)	(1)
Total net gains (losses) related to derivatives not designated as hedging instruments	202	(1)	(1)
Net gains (losses) on derivatives and hedging activities	$ 202	$ (1)	$ (1)

The following table shows the recorded net gains or losses on derivatives and the related hedged items in fair value hedging relationships and the impact of those derivatives on the Company's net interest income for the years ended December 31, 2018, 2017 and 2016.

	December 31, 2018			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ 283	$ (283)	$ —	$ (40)
Total	$ 283	$ (283)	$ —	$ (40)

	December 31, 2017			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ 12	$ (12)	$ —	$ (137)
Total	$ 12	$ (12)	$ —	$ (137)

	December 31, 2016			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ 211	$ (211)	$ —	$ (199)
Total	$ 211	$ (211)	$ —	$ (199)

NOTE 10 – DEPOSITS

Time deposits that met or exceeded the FDIC insurance limit of $250 totaled $316,288 and $245,321 as of December 31, 2018 and 2017.

At December 31, 2018 and 2017, Certificate of Deposit Account Registry Services ("CDARS") deposits of $131,107 and $62,988 were included in the Company's time deposit balance. Of the CDARS deposits at December 31, 2018 and 2017, $20,933 and $22,934 were reciprocal customer funds placed in the CDARS program. CDARS allows Equity Bank to break large deposits into smaller amounts and place them in a network of other CDARS banks to ensure that FDIC insurance coverage is gained on the entire deposit. Reciprocal deposits are not considered brokered deposits as long as the aggregate balance is less than the lesser of 20% of total liabilities or $5 billion and Equity Bank is well capitalized and well rated. All non-reciprocal deposits and reciprocal deposits in excess of regulatory limits are considered brokered deposits.

At December 31, 2018, the scheduled maturities of time deposits are as follows.

Due in one year or less	$ 673,838
Due after one year through two years	209,695
Due after two years through three years	44,784
Due after three years through four years	63,810
Due after four years through five years	14,720
Thereafter	1,059
Total	$ 1,007,906

NOTE 11 – BORROWINGS

Federal funds purchased and retail repurchase agreements

Federal funds purchased and retail repurchase agreements included the following at December 31, 2018 and 2017.

	2018	2017
Federal funds purchased	$ —	$ —
Retail repurchase agreements	$ 50,068	$ 37,492

Securities sold under agreements to repurchase (retail repurchase agreements) consist of obligations of the Company to other parties. The obligations are secured by residential mortgage-backed securities held by the Company with a fair value of $51,701 and $44,768 at December 31, 2018 and December 31, 2017. The agreements are on a day-to-day basis and can be terminated on demand.

The following table presents the borrowing usage and interest rate information for federal funds purchased and retail repurchase agreements at and for the years ended December 31, 2018 and 2017.

	2018	2017
Average daily balance during the period	$ 43,536	$ 25,823
Average interest rate during the period	0.26%	0.25%
Maximum month-end balance during the period	$ 53,815	$ 43,843
Weighted average interest rate at period-end	0.28%	0.23%

Federal Home Loan Bank advances

Federal Home Loan Bank advances as of December 31, 2018 and 2017 were as follows.

	2018	2017
Federal Home Loan Bank line of credit advances	$ 368,770	$ 347,692
Federal Home Loan Bank fixed rate term advances	16,049	—
Total principal outstanding	384,819	347,692
Federal Home Loan Bank fixed rate term advances, fair market value adjustments	79	—
Total Federal Home Loan Bank advances	$ 384,898	$ 347,692

At December 31, 2018 and 2017, the Company had $368,770 and $347,692 drawn against its line of credit at a weighted average rate of 2.65% and 1.47%.

At December 31, 2018 and 2017, the Company had undisbursed advance commitments (letters of credit) with the Federal Home Loan Bank of $31,451 and $5,690. These letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit.

The advances, Mortgage Partnership Finance credit enhancement obligations and letters of credit were collateralized by certain qualifying loans totaling $951,196 and $478,966 at December 31, 2018 and 2017. Based on this collateral and the Company's holdings of Federal Home Loan Bank stock, the Company was eligible to borrow an additional $534,627 and $125,271 at December 31, 2018 and 2017.

Future principal repayments of the December 31, 2018 outstanding balances are as follows.

Due in one year or less	$ 371,724
Due after one year through two years	2,988
Due after two years through three years	2,357
Due after three years through four years	2,357
Due after four years through five years	2,357
Thereafter	3,036
Total	$ 384,819

Bank stock loan

On March 13, 2017, the Company entered into an agreement with an unaffiliated financial institution that provided for a maximum borrowing facility of $30,000, secured by the Company's stock in Equity Bank. The borrowing facility was renewed on March 12, 2018, amended March 11, 2019 to provide a maximum borrowing facility of $40,000 and matures May 15, 2020. Each draw of funds on the facility will create a separate note that is repayable over a term of five years. Each note will bear interest at a variable interest rate equal to the prime rate published in the "Money Rates" section of The Wall Street Journal (or any generally recognized successor), floating daily. Accrued interest and principal payments will be due quarterly with one final payment of unpaid principal and interest due at the end of the five-year term of each separate note. The Company is also required to pay an unused commitment fee in an amount equal to 20 basis points per annum on the unused portion of the maximum borrowing facility.

Bank stock loan advances as of December 31, 2018 and 2017 are listed below.

December 31, 2018	Outstanding Balance	Weighted Average Rate
Bank stock loan	$ 15,450	5.50%

December 31, 2017	Outstanding Balance	Weighted Average Rate
Bank stock loan	$ 2,500	4.50%

Future principal repayments of the December 31, 2018 outstanding balances are as follows.

Due in one year or less	$ 1,850
Due after one year through two years	1,600
Due after two years through three years	1,600
Due after three years through four years	1,600
Due after four years through five years	8,800
Thereafter	—
Total	$ 15,450

The terms of the borrowing facility require the Company and Equity Bank to maintain minimum capital ratios and other covenants. The Company believes it is in compliance with the terms of the borrowing facility and has not been otherwise notified of noncompliance.

NOTE 12 – SUBORDINATED DEBENTURES

In conjunction with the 2012 acquisition of First Community Bancshares, Inc. (FCB), the Company assumed certain subordinated debentures owed to special purpose unconsolidated subsidiaries that are controlled by the Company, FCB Capital Trust II and FCB Capital Trust III, ("CTII" and "CTIII", respectively).

On March 24, 2005, CTII, an unconsolidated subsidiary of the Company, issued $10,000 of variable rate trust preferred securities, all of which are outstanding at December 31, 2018 and 2017. The trust preferred securities issued by CTII accrue and pay distributions quarterly at three-month LIBOR plus 2.00% (4.44% at December 31, 2018 and 3.36% at December 31, 2017) on the stated liquidation amount of the trust preferred securities. As an integral part of the acquisition of FCB, the Company has guaranteed fully and unconditionally all of the obligations of CTII. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on April 15, 2035 or upon earlier redemption. The Company has the right to redeem the trust preferred securities in whole or in part, on or after April 15, 2015 at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The proceeds from the sale of the trust preferred securities and the issuance of $310 in common securities to FCB were used by CTII to purchase $10,310 of floating rate subordinated debentures of FCB which have the same payment terms as the trust preferred securities.

On March 30, 2007, CTIII, an unconsolidated subsidiary of the Company, issued $5,000 of variable rate trust preferred securities, all of which are outstanding at December 31, 2018 and 2017. The trust preferred securities issued by CTIII accrue and pay distributions quarterly at three-month LIBOR plus 1.89% (4.68% at December 31, 2018, and 3.48% at December 31, 2017) on the stated liquidation amount of the trust preferred securities. As an integral part of the acquisition of FCB, the Company has guaranteed fully and unconditionally all of the obligations of CTIII. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on June 15,

2037 or upon earlier redemption. The Company has the right to redeem the trust preferred securities in whole or in part at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The proceeds from the sale of the trust preferred securities and the issuance of $155 in common securities to FCB were used by CTIII to purchase $5,155 of floating rate subordinated debentures of FCB which have the same payment terms as the trust preferred securities.

In conjunction with the 2016 acquisition of Community First Bancshares, Inc. (CFBI), the Company assumed certain subordinated debentures owed to special purpose unconsolidated subsidiaries, Community First (AR) Statutory Trust I, ("CFSTI"). The trust preferred securities issued by CFSTI accrue and pay distributions quarterly at three-month LIBOR plus 3.25% (6.07% at December 31, 2018 and 4.92% at December 31, 2017) on the stated liquidation amount of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on December 26, 2032 or upon earlier redemption.

The common securities issued to the Company by the trusts possess sole voting rights with respect to matters involving those entities. The Company has the right to defer the payment of interest on all of its outstanding trust preferred securities. The Company has the right to declare such a deferral for up to 20 consecutive quarterly periods and deferral may only be declared as long as the Company is not then in default under the provisions of the Amended and Restated Trust Agreements. During the deferral period, interest on the indebtedness continues to accrue and the unpaid interest is compounded. As long as the deferral period continues, the Company is prohibited from: (i) declaring or paying any dividend on any of its capital stock, which would include both its common stock and the outstanding preferred stock issued to the Treasury, or (ii) making any payment on any debt security that is ranked equally with or junior to the securities issued by the trust.

As a part of the acquisition of FCB, the Company recorded the debentures at an estimated fair value of $8,270. As part of the acquisition of CFBI, the Company recorded the debentures at an estimated fair value of $4,187. The initial fair value adjustments will be amortized against earnings on a prospective basis. At December 31, 2018 and 2017, the contractual balance and the unamortized fair value adjustments were as shown below.

	2018	2017
Contractual balance	$ 20,620	$ 20,620
Unamortized fair value adjustment	(6,360)	(6,652)
Net book value	$ 14,260	$ 13,968

Subordinated debentures are included in Tier 1 capital for purposes of determining the Company's compliance with regulatory capital requirements.

NOTE 13 – CONTRACTUAL OBLIGATIONS

At December 31, 2018 and 2017, the Company had contractual obligations of $3,965 and $1,967. Contractual obligations represent commitments made by the Company to make capital investments in limited-liability entities that invest in qualified affordable housing projects. The Company expects to fulfill these commitments during the years 2019 through 2033.

NOTE 14 – STOCKHOLDERS' EQUITY

Preferred Stock

The Company's articles of incorporation provide for the issuance of 10,000,000 shares of preferred stock.

On August 11, 2011, as part of the Small Business Lending Fund ("SBLF"), the Company entered into an SBLF Purchase Agreement with the United States Treasury. Under the SBLF Purchase Agreement, the Company issued the Series C preferred stock having a per share liquidation amount of $1,000 per share. The Series C preferred stock qualified as Tier 1 capital and paid quarterly dividends at a rate of 1.0% at December 31, 2015. At December 31, 2015, there were 16,372 shares of senior non-cumulative perpetual preferred stock, Series C (the Series C preferred stock) issued and outstanding. A portion of the proceeds of the IPO were used to redeem the Series C preferred stock on January 4, 2016 at liquidation amount of $16,372. There were no shares of preferred stock outstanding at December 31, 2018, 2017 or 2016.

Common stock

The Company's articles of incorporation provide for the issuance of 45,000,000 shares of Class A voting common stock ("Class A common stock") and 5,000,000 shares of Class B non-voting common stock ("Class B common stock"), both of which have a par

value of $0.01 per share. At December 31, 2018 and 2017, the following table presents shares that were issued and were held in treasury or were outstanding.

	2018	2017
Class A common stock – issued	17,244,138	15,876,650
Class A common stock – held in treasury	(1,271,043)	(1,271,043)
Class A common stock – outstanding	15,973,095	14,605,607
Class B common stock – issued	234,903	234,903
Class B common stock – held in treasury	(234,903)	(234,903)
Class B common stock – outstanding	—	—

Treasury stock is stated at cost, determined by the first-in, first-out method.

On March 10, 2017, the Company completed its merger with Prairie State Bancshares, Inc. ("Prairie") of Hoxie, Kansas. There were a total of 479,465 shares of Class A common stock issued in connection with this merger.

On November 10, 2017, the Company completed its mergers with Eastman National Bancshares, Inc. ("Eastman") of Newkirk, Oklahoma and Cache Holdings, Inc. ("Cache") of Tulsa, Oklahoma. There were a total of 1,179,747 shares of Class A common stock issued in connection with the Eastman merger and 1,190,941 shares of Class A common stock issued in connection with the Cache merger.

On May 4, 2018, the Company completed its mergers with Kansas Banking Corporation ("KBC"), of Liberal, Kansas, and Adams Dairy Bancshares, Inc. ("Adams") of Blue Springs, Missouri. There were a total of 820,849 shares of Class A common stock issued in connection with the KBC merger and 344,063 shares of Class A common stock issued in connection with the Adams merger.

Restricted stock unit plan termination loans

In connection with termination of the Company's restricted stock unit plan ("RSUP"), 203,216 shares of Class A common stock were issued in May 2015 to employees with vested restricted stock units. Additional paid-in capital includes $224 of tax benefits in excess of those previously provided in connection with stock compensation expense. Also in connection with the termination of the RSUP, the Company agreed to loan electing participants an amount equal to each participant's federal and state income tax withholding obligation associated with the stock issuance. These loans totaling $121 at December 31, 2018, are collateralized by the shares received with a maturity date of December 31, 2019, and an interest rate of 1.68%.

Accumulated other comprehensive income (loss)

For the years ended December 31, 2018 and 2017, accumulated other comprehensive income consisted of (i) the after-tax effect of unrealized gains (losses) on available-for-sale securities and (ii) the after-tax effect of unamortized unrealized gains (losses) on securities transferred from the available-for-sale designation to the held-to-maturity designation. During 2018, 2017 and 2016, gains of $0, $271 and $893 were reclassified from accumulated other comprehensive income to net gains on sales of and settlement of securities within the consolidated statement of income and $453, $532 and $615 of accretion expense were reclassified from accumulated other comprehensive income to taxable interest income on securities within the consolidated statement of income.

Components of accumulated other comprehensive income as of December 31, 2018 and 2017 were as follows.

	Available -for-Sale Securities	Held-to -Maturity Securities	Accumulated Other Comprehensive Income
December 31, 2018			
Net unrealized or unamortized gains (losses)	$ (4,628)	$ (1,891)	$ (6,519)
Tax effect	1,173	479	1,652
	$ (3,455)	$ (1,412)	$ (4,867)
December 31, 2017			
Net unrealized or unamortized gains (losses)	$ (1,797)	$ (2,344)	$ (4,141)
Tax effect	455	594	1,049
	$ (1,342)	$ (1,750)	$ (3,092)

NOTE 15 – INCOME TAXES

Income tax expense is listed in the following table.

	2018	2017	2016
Current income tax expense			
Federal	$ 4,655	$ 6,474	$ 2,863
State	2,212	1,282	723
Total current income tax expense	6,867	7,756	3,586
Deferred income tax expense			
Federal	2,933	2,550	865
State	550	71	44
Total deferred income tax expense	3,483	2,621	909
Total income tax expense	$ 10,350	$ 10,377	$ 4,495

A reconciliation of income tax expense at the U.S. federal statutory rate (21% in 2018; 35% in 2017and 2016) to the Company's actual income tax expense is shown below.

	2018	2017	2016
Computed at the statutory rate	$ 9,697	$ 10,862	$ 4,854
Increase (decrease) resulting from:			
State and local taxes, net of federal benefit	1,962	717	449
Tax-exempt interest	(844)	(1,177)	(576)
Non-taxable life insurance income	(462)	(506)	(350)
Non-deductible expenses	530	376	689
Share-based payments	(23)	(335)	—
Federal tax credits	(568)	(660)	(625)
Change in valuation allowance	336	187	65
Effect of tax reform	—	1,086	—
Other	(278)	(173)	(11)
Income tax expense	$ 10,350	$ 10,377	$ 4,495

On December 22, 2017, Tax Reform was enacted which reduced the U.S. federal statutory income tax rate from 35% to 21% effective January 1, 2018. The Company accounted for the effects of Tax Reform in the period of enactment as required by generally accepted accounting principles using reasonable estimates based on information available in December 2017. The Company has completed its accounting for the effects of Tax Reform and no additional income tax expense was recorded in 2018. The direct impact to the 2017 financial statements was the re-measurement of the Company's December 31, 2017, deferred tax assets and liabilities which were expected to reverse beginning in 2018. The re-measurement of the Company's net deferred tax asset resulted in $1,086 additional income tax expense being recognized in 2017, including a $535 decrease in the net deferred tax assets related to unrealized or unamortized losses on securities. The impact of this re-measurement is included in the statutory rate reconciliation above.

With the exception of the revaluation adjustment required by Tax Reform, the deferred tax effects of unrealized or unamortized gains and losses on securities are recorded directly to stockholders' equity as part of other comprehensive income. Effective January 1, 2017, the Company adopted the provisions of ASU 2016-09 on a prospective basis. In accordance with ASU 2016-09, $23 and $335 tax benefits, which were generated when the tax deduction for share-based payments exceeded book compensation costs, reduced income tax expense for the years ended December 31, 2018 and 2017. Prior to the adoption of ASU 2016-09, excess tax benefits associated with share-based payments were recognized in paid-in-capital and totaled $13 in 2016.

Components of deferred tax assets and liabilities are shown in the table below.

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 2,880	$ 2,121
Net unrealized or unamortized losses on securities	1,639	1,034
Tax credit carryforwards	974	974
Accrued compensation	1,675	1,208
Net operating loss carryforwards	1,003	797
Other real estate owned	656	588
Acquired loans fair market value adjustments	4,058	4,532
Other	1,072	404
Gross deferred tax assets	13,957	11,658
Deferred tax liabilities		
Assumed debt fair market value adjustments	1,537	1,607
Goodwill amortization	1,492	1,267
Depreciation	3,288	1,831
Federal Home Loan Bank stock dividends	1,123	764
Core deposit intangibles	4,293	2,301
Other	283	360
Gross deferred tax liabilities	12,016	8,130
State valuation allowance	(908)	(571)
Net deferred tax asset	$ 1,033	$ 2,957

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. In 2018, the Company recognized deferred tax assets of $2,522 and deferred tax liabilities of $2,190 for temporary differences associated with the KBC merger and deferred tax assets of $1,134 and deferred tax liabilities of $518 for temporary differences associated with the Adams merger. Deferred tax assets of $34 were recognized in connection with the CBT merger. In 2017, the Company recognized deferred tax assets of $2,832 and deferred tax liabilities of $2,075 for temporary differences associated with the Eastman merger and deferred tax assets of $1,446 and deferred tax liabilities of $694 for temporary differences associated with the Cache merger. Federal net operating losses, acquired through previous acquisitions, totaled $464 at December 31, 2018 and will expire between 2031 and 2033. Acquired federal tax credits totaling $974 will expire between 2027 and 2033. The utilization of these net operating loss and tax credit carryforwards are not expected to be limited by internal revenue code sections 382 and 383.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Arkansas, Kansas, Missouri, Oklahoma and Iowa. Commercial banks are not allowed to file consolidated Kansas returns with non-bank consolidated group members. The Company has unused state operating loss carryforwards of approximately $25,141 that expire between 2020 and 2028 resulting from the separate Kansas returns of the Company and SA Holdings, Inc. These operating losses, as well as certain deferred tax assets, have a full valuation allowance recorded against them resulting in a zero carrying value. In connection with a 2015 acquisition, the Company acquired Kansas net operating losses useable against Kansas bank income. At December 31, 2018, the Kansas net operating loss carryforward useable against Kansas bank income totaled $2,885 with expiration dates between 2020 and 2024. The utilization of this acquired Kansas net operating loss carryforward is expected to be limited, and a valuation allowance has been recorded against the portion which is expected to expire unused. In establishing a valuation allowance management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The Company is no longer subject to examination by taxing authorities for years before 2015. At December 31, 2018, there were no examinations in any jurisdiction.

NOTE 16 – REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The Basel III rules also require banks to maintain a Common Equity Tier 1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well

capitalized" for purposes of certain rules and prompt corrective action requirements. The risk-based ratios include a "capital conservation buffer" of 2.5%. The new capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on certain activities, including payment of dividends, share repurchases and discretionary bonuses to executive officers, if its capital level is below the buffer amount. Management believes as of December 31, 2018, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and acquisitions and capital restoration plans are required.

As of December 31, 2018, the most recent notifications from the federal regulatory agencies categorized Equity Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Equity Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Equity Bank's category.

The Company's and Equity Bank's capital amounts and ratios at December 31, 2018 and 2017 are presented in the tables below. Ratios provided for Equity Bancshares, Inc. represent the ratios of the Company on a consolidated basis.

	Actual		Minimum Required for Capital Adequacy Under Basel III Phase-In		Minimum Required for Capital Adequacy Under Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2018								
Total capital to risk weighted assets								
Equity Bancshares, Inc.	$337,649	11.92%	$279,621	9.88%	$297,319	10.50%	$ N/A	N/A
Equity Bank	338,180	11.96%	279,244	9.88%	296,918	10.50%	282,779	10.00%
Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	326,195	11.52%	222,989	7.88%	240,687	8.50%	N/A	N/A
Equity Bank	326,726	11.55%	222,688	7.88%	240,362	8.50%	226,223	8.00%
Common equity Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	311,935	11.02%	180,515	6.38%	198,213	7.00%	N/A	N/A
Equity Bank	326,726	11.55%	180,271	6.38%	197,945	7.00%	183,806	6.50%
Tier 1 leverage to average assets								
Equity Bancshares, Inc.	326,195	8.60%	151,731	4.00%	151,731	4.00%	N/A	N/A
Equity Bank	326,726	8.62%	151,590	4.00%	151,590	4.00%	189,488	5.00%

	Actual		Minimum Required for Capital Adequacy Under Basel III Phase-In		Minimum Required for Capital Adequacy Under Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017								
Total capital to risk weighted assets								
Equity Bancshares, Inc.	$288,353	12.54%	$212,705	9.25%	$241,449	10.50%	$ N/A	N/A
Equity Bank	279,712	12.17%	212,682	9.25%	241,423	10.50%	229,927	10.00%
Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	279,855	12.17%	166,715	7.25%	195,459	8.50%	N/A	N/A
Equity Bank	271,214	11.80%	166,697	7.25%	195,438	8.50%	183,942	8.00%
Common equity Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	265,887	11.56%	132,222	5.75%	160,966	7.00%	N/A	N/A
Equity Bank	271,214	11.80%	132,208	5.75%	160,949	7.00%	149,452	6.50%
Tier 1 leverage to average assets								
Equity Bancshares, Inc.	279,855	10.33%	108,372	4.00%	108,372	4.00%	N/A	N/A
Equity Bank	271,214	10.01%	108,351	4.00%	108,351	4.00%	135,439	5.00%

Equity Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

NOTE 17 – RELATED PARTY TRANSACTIONS

At December 31, 2018 and 2017, the Company had loans outstanding to executive officers, directors, significant stockholders, and their affiliates (related parties), in the amount of $2,267 and $3,892. Changes during 2018 are listed below.

	2018
Balance at January 1, 2018	$ 3,892
New loans/advances	1,803
Repayments	(3,428)
Balance at December 31, 2018	$ 2,267

At December 31, 2018 and 2017, the Company had deposits from executive officers, directors, significant stockholders, and their affiliates (related parties), in the amount of $6,127 and $6,274.

NOTE 18 – EMPLOYEE BENEFITS

The Company has a defined contribution profit sharing plan and a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to $19 of their compensation. Contributions to the profit sharing plan and 401(k) plan are discretionary and are determined annually by the Board of Directors. Employer contributions charged to expense for 2018, 2017 and 2016 were $885, $704 and $479.

As a result of the acquisition of First Independence, the Company assumed the obligations related to First Independence's participation in the Pentegra Defined Benefit Plan for Financial Institutions, a tax-qualified defined benefit pension plan. The Pentegra Defined Benefit Plan is treated as a multi-employer plan for accounting purposes but operates as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. As a result, certain multi-employer plan disclosures are not applicable to the Pentegra Defined Benefit Plan. Under the Pentegra Defined Benefit Plan, contributions made by a participating employer may be used to provide benefits to employees of other participating employers because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. Also, in the event a participating employer is unable to meet its contribution requirements, the required contributions for the other participating employers could increase proportionately.

The Pentegra Defined Benefit Plan covered substantially all officers and employees of First Independence who began employment prior to December 31, 2009, with 55 participants retaining benefits under the plan.

The Pentegra Defined Benefit Plan operates on a fiscal year from July 1 through June 30 and files one Form 5500 on behalf of all employers who participate in the plan. The Employer Identification Number is 13-5645888 and the three-digit plan number is 333. There are no collective bargaining agreements in place at the Company.

The Pentegra Defined Benefit Plan's annual valuation process includes calculating the plan's funded status and separately calculating the funded status of each participating employer. The funded status is defined as the market value of assets divided by the funding target (100 percent of the present value of all benefit liabilities accrued at that date). As permitted by ERISA, the Pentegra Defined Benefit Plan accepts contributions for the prior plan year up to eight and a half months after the asset valuation date. As a result, the fair value of assets at the valuation date (July 1) will increase by any subsequent contributions designated for the immediately preceding plan year ended June 30. The most recent Form 5500 available for the Pentegra Defined Benefit Plan is for the year ended June 30, 2017.

The following table presents the net pension cost and funded status of the Company relating to the Pentegra Defined Benefit Plan since the date of acquisition (dollar amounts in thousands).

	2018	2017
Net pension cost charged to salaries and employee benefits	$ 113	$ 84
Pentegra defined benefit plan funded status as of July 1	109.86%	110.37%
Plan's funded status as of July 1	94.30%	96.89%
Contributions paid to the plan	$ 93	$ 65

The Company's contributions to the Pentegra Defined Benefit Plan were less than 5.00% of the total contributions to the Pentegra Defined Benefit plan for the plan year ended June 30, 2018.

NOTE 19 – SHARE-BASED PAYMENTS

The Company's Amended and Restated 2013 Stock Incentive Plan (the Plan) reserved 1,500,000 shares for the grant of non-qualified stock options, restricted stock units, restricted stock and unrestricted stock to its employees and directors. The Plan replaced the 2006 Non-qualified Stock Option Plan (2006 Plan). Under the 2006 Plan, there were 150,000 and 150,000 fully vested and exercisable options outstanding at December 31, 2018 and 2017. No new grants of options may be made under the 2006 Plan. The Company believes that stock-based awards better align the interests of its employees with those of its stockholders. Under the Company's director compensation policy, directors may elect to receive all or a portion of their fees in cash, Company stock or non-qualified stock options. During the years ended December 31, 2018 , 2017 and 2016, the Company recognized director compensation expense of $53, $46 and $32 and issued 1,375, 1,457 and 953 shares of Company stock pursuant to certain directors' elections under the Company's director compensation policy. At December 31, 2018, there were 614,424 shares available for equity awards under the Plan.

<u>Stock Option Awards</u>: Options granted to directors and employees under the Plan vest depending on the passage of time or the achievement of performance targets, depending on the terms of the underlying grant.

The following tables summarize stock option activity for the years ended December 31, 2018 and 2017.

December 31, 2018	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	797,521	$ 22.54	8	$ 10,261
Granted	99,935	34.69	10	—
Exercised	(6,800)	(19.49)	(8)	—
Forfeited or expired	(38,100)	(31.97)	(10)	—
Outstanding at end of year	852,556	$ 23.57	7	$ 10,044
Fully vested and expected to vest	852,556	$ 23.57	7	$ 10,044
Exercisable at end of year	565,847	$ 19.44	4	$ 8,995

December 31, 2017	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	590,835	$ 16.69	7	$ 10,017
Granted	305,404	33.05	10	—
Exercised	(71,434)	(17.01)	(3)	—
Forfeited or expired	(27,284)	(27.72)	(10)	—
Outstanding at end of year	797,521	$ 22.54	8	$ 10,261
Fully vested and expected to vest	797,521	$ 22.54	8	$ 10,261
Exercisable at end of year	484,728	$ 17.48	7	$ 8,692

The fair values of stock options granted during the years ended December 31, 2018, 2017 and 2016, were estimated to be $9.01 per share, $8.75 per share and $5.10 per share. The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected stock price volatility is based on the historical volatility of the SNL Bank Index. The expected term of options granted is based on the Simplified Method. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair values of options granted were determined using the following weighted-average assumptions as of grant dates.

	2018	2017	2016
Risk free rate	2.45%	2.20%	1.58%
Market value of stock on grant date	$ 34.69	$ 33.05	$ 25.44
Expected term (in years)	6.3	6.7	5.0
Expected volatility	19.71%	19.66%	19.08%
Dividend rate	—%	—%	—%

Compensation expense for stock options is recognized as the options vest. Total stock option compensation cost that has been charged against income was $813, $592, and $374 for 2018, 2017 and 2016. The total income tax benefit was $205, $226 and $143. At December 31, 2018, there was $2.0 million of unrecognized compensation expense related to non-vested stock options granted under the Plan. Unrecognized compensation expense at December 31, 2018, will be recognized over a remaining weighted average period of 7 years.

Restricted Stock Unit Awards:

Restricted stock units (RSUs) granted to employees under the Plan represent the right to receive one share of Company stock upon vesting, in accordance with the vesting schedule provided in each award agreement. To the extent vested, the RSUs become Class A voting common stock within ten calendar days of the vesting date. Non-vested RSUs have no voting rights and are not considered outstanding until vesting. The fair value of the RSUs is determined by the closing price of the Company's stock on the date of grant.

A summary of changes in the Company's non-vested RSUs for the year is shown below.

Non-vested Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs at January 1, 2018	4,890	$ 33.50
Granted	145,288	36.89
Vested	(14,401)	(36.55)
Forfeited	(3,670)	(37.57)
Outstanding at end of year	132,107	$ 36.78

Compensation expense is recognized over the vesting period of the award based on the fair value of RSU awards at the grant date. The Company recognized share-based compensation attributable to RSUs of $1,643, $80 and $0 for the years ended December 31, 2018, 2017 and 2016. The total income tax benefit was $413, $31 and $0 for the same time periods. Unrecognized RSU compensation expense of $3.7 million at December 31, 2018, will be recognized over a remaining weighted average period of 3 years.

NOTE 20 – EARNINGS PER SHARE

Earnings per share were computed as shown below.

	2018	2017	2016
Basic:			
Net income allocable to common stockholders	$ 35,825	$ 20,649	$ 9,373
Weighted average common shares outstanding	15,389,513	12,446,851	8,624,108
Weighted average vested restricted stock units	4,403	1,751	—
Weighted average shares	15,393,916	12,448,602	8,624,108
Basic earnings per common share	$ 2.33	$ 1.66	$ 1.09
Diluted:			
Net income allocable to common stockholders	$ 35,825	$ 20,649	$ 9,373
Weighted average common shares outstanding for:			
Basic earnings per common share	15,393,916	12,448,602	8,624,108
Dilutive effects of the assumed exercise of stock options	293,588	255,947	131,418
Dilutive effects of the assumed redemption of RSUs	20,882	2,635	—
Average shares and dilutive potential common shares	15,708,386	12,707,184	8,755,526
Diluted earnings per common share	$ 2.28	$ 1.62	$ 1.07

Average outstanding stock options of 26,419, 141,891 and 92 for the years ending December 31, 2018, 2017 and 2016 were not included in the computation of diluted earnings per share because the options were antidilutive.

NOTE 21 – FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For disclosure purposes, the Company groups its financial and non-financial assets and liabilities into three different levels based on the nature of the instrument and the availability and reliability of the information that is used to determine fair value. The three levels of inputs that may be used to measure fair values are defined as follows.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Level 1 inputs are considered to be the most transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (Level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although, in some instances, third party price indications may be available, limited trading activity can challenge the implied value of those quotations.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of each instrument under the hierarchy.

Fair Value of Assets and Liabilities Measured on a Recurring Basis

The fair values of available-for-sale securities are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as Level 1. For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities, generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The Company's available-for-sale securities, including residential mortgage-backed securities (all of which are issued or guaranteed by government sponsored agencies) and state and political subdivision securities are classified as Level 2.

The fair values of derivatives are determined based on a valuation pricing model using readily available observable market parameters such as interest rate yield curves (Level 2 inputs) adjusted for credit risk attributable to the seller of the derivative.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	December 31, 2018		
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Available-for-sale securities:			
Residential mortgage-backed securities (issued by government-sponsored entities)	$ —	$ 168,875	$ —
Derivative assets:			
Derivative assets (included in other assets)	—	933	—
Cash collateral held by counterparty and netting adjustments	(242)	—	—
Total derivative assets	(242)	933	—
Other assets:			
Equity securities with readily determinable fair value	475	—	—
Total other assets	475	—	—
Total assets	$ 233	$ 169,808	$ —
Liabilities:			
Derivative liabilities:			
Derivative liabilities (included in other liabilities)	$ —	$ 777	$ —
Cash collateral held by counterparty and netting adjustments	(252)	—	—
Total derivative liabilities	(252)	777	—
Total liabilities	$ (252)	$ 777	$ —

	December 31, 2017		
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Available-for-sale securities:			
Residential mortgage-backed securities (issued by government-sponsored entities)	$ —	$ 161,591	$ —
State and political subdivisions	—	195	—
Equity securities	486	—	—
Derivative assets:			
Derivative assets (included in other assets)	—	1	—
Cash collateral held by counterparty and netting adjustments	164	—	—
Total derivative assets	164	1	—
Total assets	$ 650	$ 161,787	$ —
Liabilities:			
Derivative liabilities:			
Derivative liabilities (included in other liabilities)	$ —	$ 46	$ —
Cash collateral held by counterparty and netting adjustments	(46)	—	—
Total derivative liabilities	(46)	46	—
Total liabilities	$ (46)	$ 46	$ —

There were no transfers between Levels during 2018 or 2017. The Company's policy is to recognize transfers into or out of a level as of the end of a reporting period.

Fair Value of Assets and Liabilities Measured on a Non-recurring Basis

Certain assets are measured at fair value on a non-recurring basis when there is evidence of impairment. The fair values of impaired loans with specific allocations of the allowance for loan losses are generally based on recent real estate appraisals of the collateral. Declines in the fair values of other real estate owned subsequent to their initial acquisitions are also based on recent real estate appraisals less selling costs.

Real estate appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets measured at fair value on a non-recurring basis are summarized below.

	December 31, 2018		
	(Level 1)	(Level 2)	(Level 3)
Impaired loans:			
Commercial real estate	$ —	$ —	$ 6,212
Commercial and industrial	—	—	1,697
Residential real estate	—	—	4,123
Agricultural real estate	—	—	218
Other	—	—	809
Other real estate owned:			
Commercial real estate	—	—	1,391
Residential real estate	—	—	97

	December 31, 2017		
	(Level 1)	(Level 2)	(Level 3)
Impaired loans:			
Commercial real estate	$ —	$ —	$ 1,439
Commercial and industrial	—	—	1,005
Residential real estate	—	—	4,021
Agricultural real estate	—	—	905
Other	—	—	1,910
Other real estate owned:			
Commercial real estate	—	—	1,018
Residential real estate	—	—	157

The Company did not record any liabilities for which the fair value was measured on a non-recurring basis during the years ended December 31, 2018 and 2017.

Valuations of impaired loans and other real estate owned utilize third party appraisals or broker price opinions and are classified as Level 3 due to the significant judgment involved. Appraisals may include the utilization of unobservable inputs, subjective factors and utilize quantitative data to estimate fair market value.

The following table presents additional information about the unobservable inputs used in the fair value measurement of financial assets measured on a nonrecurring basis that were categorized with Level 3 of the fair value hierarchy.

	Fair Value	Valuation Technique	Unobservable Input	Range (weighted average)
December 31, 2018				
Impaired loans	$ 13,059	Sales Comparison Approach	Adjustments for differences between comparable sales	4% - 22% (13%)
December 31, 2017				
Impaired loans	$ 9,280	Sales Comparison Approach	Adjustments for differences between comparable sales	15% - 26% (5%)

Measurable inputs for other real estate owned are not material.

Carrying amounts and estimated fair values of financial instruments at year end were as follows as of the date indicated.

	December 31, 2018				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 192,818	$ 192,818	$ 192,818	$ —	$ —
Interest-bearing deposits	4,991	4,991	—	4,991	—
Available-for-sale securities	168,875	168,875	—	168,875	—
Held-to-maturity securities	748,356	739,989	—	739,989	—
Loans held for sale	2,972	2,972	—	2,972	—
Loans, net of allowance for loan losses	2,563,954	2,565,526	—	—	2,565,526
Federal Reserve Bank and Federal Home Loan Bank stock	29,214	N/A	N/A	N/A	N/A
Interest receivable	17,372	17,372	—	17,372	—
Derivative assets	933	933	—	933	—
Cash collateral held by derivative counterparty	(242)	(242)	(242)	—	—
Total derivative assets	691	691	(242)	933	—
Total assets	$ 3,729,243	$ 3,693,234	$ 192,576	$ 935,132	$ 2,565,526
Financial liabilities:					
Deposits	$ 3,123,447	$ 3,124,654	$ —	$ 3,124,654	$ —
Federal funds purchased and retail repurchase agreements	50,068	50,068	—	50,068	—
Federal Home Loan Bank advances	384,898	384,898	—	384,898	—
Bank stock loan	15,450	15,450	—	15,450	—
Subordinated debentures	14,260	14,260	—	14,260	—
Contractual obligations	3,965	3,965	—	3,965	—
Interest payable	3,648	3,648	—	3,648	—
Derivative liabilities	777	777	—	777	—
Cash collateral held by derivative counterparty	(252)	(252)	(252)	—	—
Total derivative liabilities	525	525	(252)	777	—
Total liabilities	$ 3,596,261	$ 3,597,468	$ (252)	$ 3,597,720	$ —

	December 31, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 52,195	$ 52,195	$ 52,195	$ —	$ —
Interest-bearing deposits	3,496	3,496	—	3,496	—
Available-for-sale securities	162,272	162,272	486	161,786	—
Held-to-maturity securities	535,462	532,744	—	532,744	—
Loans held for sale	2,353	2,353	—	2,353	—
Loans, net of allowance for loan losses	2,108,772	2,112,422	—	—	2,112,422
Federal Reserve Bank and Federal Home Loan Bank stock	24,373	N/A	N/A	N/A	N/A
Interest receivable	12,371	12,371	—	12,371	—
Derivative assets	1	1	—	1	—
Cash collateral held by derivative counterparty	164	164	164	—	—
Total derivative assets	165	165	164	1	—
Total assets	$ 2,901,459	$ 2,878,018	$ 52,845	$ 712,751	$ 2,112,422
Financial liabilities:					
Deposits	$ 2,382,013	$ 2,385,528	$ —	$ 2,385,528	$ —
Federal funds purchased and retail repurchase agreements	37,492	37,492	—	37,492	—
Federal Home Loan Bank advances	347,692	347,692	—	347,692	—
Bank stock loan	2,500	2,500	—	2,500	—
Subordinated debentures	13,968	13,968	—	13,968	—
Contractual obligations	1,967	1,967	—	1,967	—
Interest payable	1,932	1,932	—	1,932	—
Derivative liabilities	46	46	—	46	—
Cash collateral held by derivative counterparty	(46)	(46)	(46)	—	—
Total derivative liabilities	—	—	(46)	46	—
Total liabilities	$ 2,787,564	$ 2,791,079	$ (46)	$ 2,791,125	$ —

The methods and assumptions, not previously presented, used to estimate fair values are described as follows.

Cash and cash equivalents and interest-bearing deposits: The carrying amount of cash and short-term instruments approximate fair value.

Held-to-maturity securities: The fair value of held-to-maturity securities are determined in a manner consistent with available-for-sale securities which has been previously discussed.

Loans held for sale: The fair value of loans held for sale are based on quoted market prices for loans with similar characteristics.

Loans: Fair value of variable rate loans that reprice frequently and with no significant change in credit risk are based on carrying values. Fair value of other loans are estimated using discounted cash flows analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Reserve Bank and Federal Home Loan Bank stock: It is not practical to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to restrictions placed on its transferability.

Interest receivable and interest payable: The carrying amount of accrued interest receivable and payable approximate their fair value.

Deposits: The fair value disclosed for demand deposits is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount). The carrying amount of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered.

Federal funds purchased and retail repurchase agreements: Federal funds purchased and retail repurchase agreements mature daily and may be terminated at any time. The carrying amount of these financial instruments approximate their fair value.

Federal Home Loan Bank Advances: The carrying amount of draws against the Company's line of credit at the Federal Home Loan Bank approximate their fair value. The fair value of fixed rate term advances is determined using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements.

Bank stock loan: The fair value of the bank stock loan was estimated using a discounted cash flow analysis based on current borrowing rates for similar types of borrowing arrangements.

Subordinated debentures: Subordinated debentures are carried at the outstanding principal balance less an unamortized fair value adjustment from the date of assumption. The outstanding principal balance, net of this adjustment, approximates their fair value.

Contractual obligations: The carrying value of contractual obligations approximate their fair value.

The fair value of off-balance-sheet items is not considered material.

NOTE 22 – COMMITMENTS AND CREDIT RISK

The Company extends credit for commercial real estate mortgages, residential mortgages, working capital financing and loans to businesses and consumers.

Commitments to Originate Loans and Available Lines of Credit:

Commitments to originate loans and available lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment and lines of credit amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and are intended for sale to investors in the secondary market.

The contractual amounts of commitments to originate loans and available lines of credit as of December 31, 2018 and 2017 were as as follows.

	December 31, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 29,543	$ 171,857	$ 38,031	$ 67,107
Mortgage loans in the process of origination	6,785	2,860	14,803	9,258
Unused lines of credit	92,225	167,218	87,948	141,026

At December 31, 2018, the fixed rate loan commitments have interest rates ranging from 3.75% to 8.50% and maturities ranging from 1 month to 81 months.

Standby Letters of Credit:

Standby letters of credit are irrevocable commitments issued by the Company to guarantee the performance of a customer to a third party once specified pre-conditions are met. 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 non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. The contractual amounts of standby letters of credit as of December 31, 2018 and 2017 are listed below.

	December 31, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Standby letters of credit	$ 4,474	$ 2,716	$ 4,064	$ 3,830

NOTE 23 – LEGAL MATTERS

The Company is party to various matters of litigation in the ordinary course of business. The Company periodically reviews all outstanding pending or threatened legal proceedings and determines if such matters will have an adverse effect on the business, financial condition or results of operations or cash flows. A loss contingency is recorded when the outcome is probable and reasonably able to be estimated. The following loss contingencies have been identified by the Company as reasonably possible to result in an unfavorable outcome for the Company.

Equity Bank is a party to a February 3, 2015, lawsuit filed against it by CitiMortgage, Inc. ("Citi"). The lawsuit involves an alleged breach of contract related to loan repurchase obligations and damages of $2,700 plus pre-judgment and post-judgment interest. In January 2018, final judgement was entered by the court dismissing Citi's claims with regard to six loans and holding Equity Bank liable with regard to six loans. A loss contingency of $477 was recorded at December 31, 2017, in connection with the resolution of this case. Subsequently Citi appealed the courts decision. The Company believes it has numerous and meritorious defenses to the claims and continues to contest the matter vigorously.

Except for the above mentioned lawsuit and settlement, there have been no other claims for potential repurchase or indemnification demands regarding mortgage loans originated by Equity Bank and sold to investors. However, the Company believes there is possible risk it may face similar demands based on comparable demands loan aggregators are facing from their investors, including Government Sponsored Entities such as Freddie Mac and Fannie Mae and/or settlement agreements loan aggregators have entered into with those investors. The amount of potential loss and outcome of such possible litigation, if it were commenced, is uncertain and the Company would vigorously contest any claims.

NOTE 24 – CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Presented below is the condensed financial information as to financial position, results of operations and cash flows of the Parent Company.

CONDENSED BALANCE SHEET

	2018	2017
ASSETS		
Cash and due from banks	$ 1,540	$ 4,201
Investment in Equity Bank	470,902	379,933
Investment in EBAC	3,262	—
Other assets	10,490	6,762
Total assets	$ 486,194	$ 390,896
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities	$ 30,253	$ 16,752
Stockholders' equity	455,941	374,144
Total liabilities and stockholders' equity	$ 486,194	$ 390,896

CONDENSED STATEMENT OF INCOME

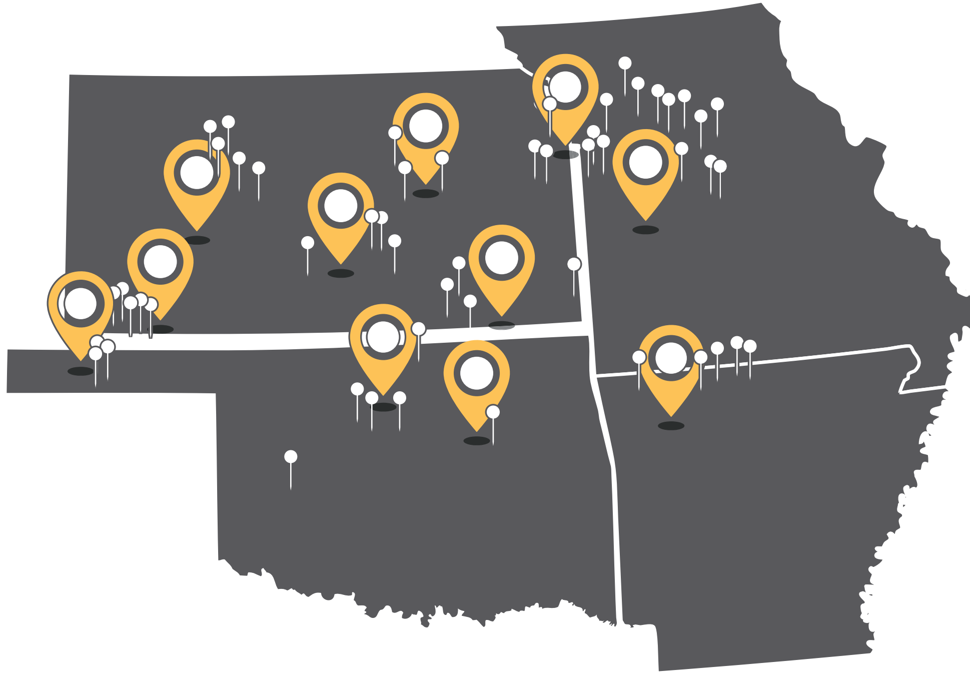
	2018	2017	2016
Dividends from Equity Bank	$ 30,500	$ 17,250	$ 9,500
Other income	3	26	1
Total income	30,503	17,276	9,501
Expenses			
Interest expense	1,918	996	701
Other expenses	3,358	3,018	2,408
Total expenses	5,276	4,014	3,109
Income (loss) before income tax and equity in undistributed income of subsidiaries	25,227	13,262	6,392
Income tax benefit	1,025	2,017	859
Income (loss) before equity in undistributed income (loss) of subsidiaries	26,252	15,279	7,251
Equity in undistributed income (loss) of Equity Bank	9,681	5,370	2,123
Equity in undistributed income (loss) of EBAC	(108)	—	—
Net income	35,825	20,649	9,374
Dividends and discount accretion on preferred stock	—	—	(1)
Net income allocable to common stockholders	$ 35,825	$ 20,649	$ 9,373

CONDENSED STATEMENT OF CASH FLOWS

	2018	2017	2016
Cash flows from operating activities			
Net income	$ 35,825	$ 20,649	$ 9,374
Adjustments to reconcile net income to net cash from operating activities:			
Stock based compensation	2,509	1,100	553
Equity in undistributed (income) loss of Equity Bank	(9,681)	(5,370)	(2,123)
Equity in undistributed (income) loss of EBAC	108	—	—
Net amortization of purchase valuation adjustments	292	284	246
Net change in:			
Other assets	(4,092)	(1,331)	(1,529)
Interest payable and other liabilities	(50)	(1,419)	(409)
Net cash from (to) operating activities	24,911	13,913	6,112
Cash flows (to) from investing activities			
Proceeds from sale of other real estate owned	—	267	—
Purchase stock of Community First, net of holding company cash acquired	—	—	(9,549)
Purchase stock of Prairie, net of holding company cash acquired	—	(12,510)	—
Purchase stock of Eastman, net of holding company cash acquired	(55)	(7,813)	—
Purchase stock of Cache, net of holding company cash acquired	—	(13,103)	—
Purchase stock of KBC, net of holding company cash acquired	(14,151)	—	—
Purchase stock of Adams, net of holding company cash acquired	(4,179)	—	—
Purchase assets of City Bank, net of liabilities assumed	(18,900)		
Purchase of net assets of EBAC	(3,370)	—	—
Net cash (used in) investing activities	(40,655)	(33,159)	(9,549)
Cash flows (to) from financing activities			
Borrowings on bank stock loan	22,500	2,500	6,000
Principal payments on bank stock loan	(9,550)	(1,000)	(33,218)
Proceeds from the issuance of common stock, net	—	—	23,643
Proceeds from exercise of employee stock options	133	1,215	112
Principal payments on employee stock loan	—	121	—
Redemption of Series C preferred stock	—	—	(16,372)
Dividends paid on preferred stock	—	—	(42)
Excess tax benefits recognized on exercise of employee stock options	—	—	13
Net cash provided by (used in) financing activities	13,083	2,836	(19,864)
Net change in cash and cash equivalents	(2,661)	(16,410)	(23,301)
Cash and cash equivalents, beginning of period	4,201	20,611	43,912
Ending cash and cash equivalents	$ 1,540	$ 4,201	$ 20,611

NOTE 25 – SUBSEQUENT EVENTS

On September 21, 2018, the Company entered into a branch purchase and assumption agreement with MidFirst Bank ("MidFirst") to acquire two branches in Guymon, Oklahoma and one branch in Cordell, Oklahoma. The transaction closed February 8, 2019. Information necessary to recognize the fair value of assets acquired and liabilities assumed remains incomplete. At the time of the acquisition, total assets transferred were approximately $14,144, which included total loans of approximately $6,507. Also, at the time of the acquisition, total liabilities transferred were approximately $98,606, which included total deposits of approximately $98,543. The Company anticipates there will be goodwill and core deposit intangibles recorded with this merger. Goodwill is calculated as the excess of the cash consideration transferred over the net of the acquisition-date fair value of identifiable assets acquired and liabilities assumed.



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