GREAT SOUTHERN BANCORP INC
Form 10-Q
November 08, 2013

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

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the Quarterly Period ended September 30, 2013

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	43-1524856 (IRS Employer Identification Number)
1451 E. Battlefield, Springfield, Missouri (Address of principal executive offices)	65804 (Zip Code)

(417) 887-4400
(Registrant's telephone number, including area code)

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 /X/ No / /

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted 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 and post such files). Yes/X/ No / /

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

(Check one):
Large accelerated filer / / Accelerated filer /X/ Non-accelerated filer / / Smaller reporting company / /
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes / / No /X/

The number of shares outstanding of each of the registrant's classes of common stock: 13,666,829 shares of common stock, par value $.01, outstanding at November 7, 2013.

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except number of shares)

	SEPTEMBER 30, 2013 (Unaudited)	DECEMBER 31, 2012
ASSETS		
Cash	$109,254	$107,949
Interest-bearing deposits in other financial institutions	230,560	295,855
Federal funds sold	—	337
Cash and cash equivalents	339,814	404,141
Available-for-sale securities	580,980	807,010
Held-to-maturity securities (fair value $915 – September 2013; $1,084 - December 2012)	805	920
Mortgage loans held for sale	10,047	26,829
Loans receivable, net of allowance for loan losses of $39,456 – September 2013; $40,649 - December 2012	2,328,738	2,319,638
FDIC indemnification asset	80,554	117,263
Interest receivable	10,932	12,755
Prepaid expenses and other assets	76,293	79,560
Foreclosed assets held for sale, net	55,606	68,874
Premises and equipment, net	104,811	102,286
Goodwill and other intangible assets	4,890	5,811
Investment in Federal Home Loan Bank stock	9,855	10,095
Total Assets	$3,603,325	$3,955,182
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$2,852,534	$3,153,193
Federal Home Loan Bank advances	127,808	126,730
Securities sold under reverse repurchase agreements with customers	135,158	179,644
Short-term borrowings	633	772
Structured repurchase agreements	50,000	53,039
Subordinated debentures issued to capital trusts	30,929	30,929
Accrued interest payable	1,121	1,322
Advances from borrowers for taxes and insurance	5,814	2,154
Accounts payable and accrued expenses	18,307	12,128
Current and deferred income tax liability	5,448	25,397
Total Liabilities	3,227,752	3,585,308
Stockholders' Equity:		
Capital stock		
Serial preferred stock – $.01 par value; authorized 1,000,000 shares; issued and outstanding September 2013 and December 2012 - 57,943 shares,	57,943	57,943

$1,000 liquidation amount		
Common stock, $.01 par value; authorized 20,000,000 shares; issued and outstanding September 2013 – 13,665,706 shares; December 2012 - 13,596,335 shares	137	136
Additional paid-in capital	19,407	18,394
Retained earnings	294,420	276,751
Accumulated other comprehensive income	3,666	16,650
Total Stockholders' Equity	375,573	369,874
Total Liabilities and Stockholders' Equity	$3,603,325	$3,955,182

See Notes to Consolidated Financial Statements

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GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
	(Unaudited)	
INTEREST INCOME		
Loans	$ 40,087	$ 44,606
Investment securities and other	2,932	5,553
TOTAL INTEREST INCOME	43,019	50,159
INTEREST EXPENSE		
Deposits	2,822	5,092
Federal Home Loan Bank advances	1,005	1,023
Short-term borrowings and repurchase agreements	587	634
Subordinated debentures issued to capital trusts	141	155
TOTAL INTEREST EXPENSE	4,555	6,904
NET INTEREST INCOME	38,464	43,255
PROVISION FOR LOAN LOSSES	2,677	8,400
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	35,787	34,855
NON-INTEREST INCOME		
Commissions	158	231
Service charges and ATM fees	4,729	4,900
Net realized gains on sales of loans	1,179	1,404
Net realized gains on sales of available-for-sale securities	110	507
Late charges and fees on loans	284	195
Gain (loss) on derivative interest rate products	(125)	(104)
Accretion (amortization) of income/expense related to business acquisitions	(6,339)	(5,959)
Other income	933	911
TOTAL NON-INTEREST INCOME	929	2,085
NON-INTEREST EXPENSE		
Salaries and employee benefits	13,034	13,013
Net occupancy and equipment expense	5,216	5,556
Postage	790	845
Insurance	1,083	1,143
Advertising	433	449
Office supplies and printing	320	340
Telephone	679	684
Legal, audit and other professional fees	1,186	946
Expense on foreclosed assets	1,068	2,536
Partnership tax credit investment amortization	1,578	1,463
Other operating expenses	1,791	2,177
TOTAL NON-INTEREST EXPENSE	27,178	29,152
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	9,538	7,788

PROVISION FOR INCOME TAXES		1,099		746
NET INCOME FROM CONTINUING OPERATIONS		8,439		7,042
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of income taxes		—		62
NET INCOME		8,439		7,104
Preferred stock dividends		145		150
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$	8,294	$	6,954

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	THREE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
BASIC EARNINGS PER COMMON SHARE	$ 0.61	$ 0.51
DILUTED EARNINGS PER COMMON SHARE	$ 0.61	$ 0.51
BASIC EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS	$ 0.61	$ 0.50
DILUTED EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS	$ 0.61	$ 0.50
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.18	$ 0.18

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	NINE MONTHS ENDED SEPTEMBER 30, 2013	NINE MONTHS ENDED SEPTEMBER 30, 2012
	(Unaudited)	
INTEREST INCOME		
Loans	$ 122,226	$ 124,572
Investment securities and other	11,630	18,486
TOTAL INTEREST INCOME	133,856	143,058
INTEREST EXPENSE		
Deposits	9,611	16,663
Federal Home Loan Bank advances	2,968	3,430
Short-term borrowings and repurchase agreements	1,758	1,993
Subordinated debentures issued to capital trusts	421	468
TOTAL INTEREST EXPENSE	14,758	22,554
NET INTEREST INCOME	119,098	120,504
PROVISION FOR LOAN LOSSES	14,573	36,077
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	104,525	84,427
NON-INTEREST INCOME		
Commissions	836	769
Service charges and ATM fees	13,800	14,272
Net realized gains on sales of loans	4,236	3,650
Net realized gains on sales and impairments of available-for-sale securities	241	1,787
Late charges and fees on loans	785	605
Gain (loss) on derivative interest rate products	283	(124)
Initial gain recognized on business acquisition	—	31,312
Accretion (amortization) of income/expense related to business acquisitions	(17,900)	(12,147)
Other income	3,898	3,898
TOTAL NON-INTEREST INCOME	6,179	44,022
NON-INTEREST EXPENSE		
Salaries and employee benefits	39,334	38,842
Net occupancy and equipment expense	15,451	15,234
Postage	2,454	2,473
Insurance	3,204	3,321
Advertising	1,599	1,216
Office supplies and printing	950	1,061
Telephone	2,169	2,088
Legal, audit and other professional fees	2,936	3,366
Expense on foreclosed assets	3,478	4,203
Partnership tax credit investment amortization	4,500	3,799
Other operating expenses	5,663	6,691
TOTAL NON-INTEREST EXPENSE	81,738	82,294

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	28,966	46,155
PROVISION FOR INCOME TAXES	3,910	10,447
NET INCOME FROM CONTINUING OPERATIONS	25,056	35,708
DISCONTINUED OPERATIONS		
Income from discontinued operations, net of income taxes	—	549
NET INCOME	25,056	36,257
Preferred stock dividends	435	440
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 24,621	$ 35,817

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	NINE MONTHS ENDED SEPTEMBER 30, 2013	NINE MONTHS ENDED SEPTEMBER 30, 2012
BASIC EARNINGS PER COMMON SHARE	$ 1.81	$ 2.65
DILUTED EARNINGS PER COMMON SHARE	$ 1.80	$ 2.62
BASIC EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS	$ 1.81	$ 2.61
DILUTED EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS	$ 1.80	$ 2.59
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.54	$ 0.54

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
Net Income	$8,439	$7,104
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of $(2,812) and $1,648, for 2013 and 2012, respectively	(5,221)	3,062
Non-credit component of unrealized gain (loss) on available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized, net of taxes (credit) of $0 and $(17), for 2013 and 2012, respectively	—	(31)
Reclassification adjustment for gains included in net income, net of taxes of $(38) and $(177), for 2013 and 2012, respectively	(72)	(330)
Change in fair value of cash flow hedge, net of taxes (credit) of $(24) and $0, for 2013 and 2012, respectively	(45)	—
Comprehensive Income	$3,101	$9,805

	NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
Net Income	$25,056	$36,257
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of $(6,863) and $4,102, for 2013 and 2012, respectively	(12,745)	7,620
Non-credit component of unrealized gain (loss) on available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized, net of taxes (credit) of $(20) and ($20), for 2013 and 2012, respectively	(37)	(37)
Other-than-temporary impairment loss recognized in earnings on available for sale securities, net of taxes (credit) of $0 and $(92), for 2013 and 2012, respectively	—	(170)

Reclassification adjustment for gains included in net income, net of taxes of \$(84) and \$(625), for 2013 and 2012, respectively	(157)	(1,162)
Change in fair value of cash flow hedge, net of taxes (credit) of \$(24) and \$0, for 2013 and 2012, respectively	(45)	—
Comprehensive Income	\$12,072	\$42,508

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 25,056	$ 36,257
Proceeds from sales of loans held for sale	184,382	185,387
Originations of loans held for sale	(171,035)	(190,534)
Items not requiring (providing) cash:		
Depreciation	5,971	5,246
Amortization of other assets	5,421	4,743
Compensation expense for stock option grants	333	320
Provision for loan losses	14,573	36,077
Net gains on loan sales	(4,236)	(3,650)
Net gains on sale or impairment of available-for-sale investment securities	(241)	(1,787)
Net (gains) losses on sale of premises and equipment	(10)	159
(Gain) loss on sale of foreclosed assets	1,823	856
Gain on purchase of additional business units	—	(31,312)
Amortization of deferred income, premiums, discounts and fair value adjustments	22,518	10,115
(Gain) loss on derivative interest rate products	(284)	124
Deferred income taxes	(13,625)	3,504
Changes in:		
Interest receivable	1,823	2,337
Prepaid expenses and other assets	16,244	73,932
Accounts payable and accrued expenses	4,376	(1,157)
Income taxes refundable/payable	668	7,323
Net cash provided by operating activities	93,757	137,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(19,044)	(4,395)
Purchase of loans	(20,388)	(12,107)
Cash received from purchase of additional business units	—	75,328
Purchase of premises and equipment	(9,761)	(22,562)
Proceeds from sale of premises and equipment	1,275	488
Proceeds from sale of foreclosed assets	35,973	38,710
Capitalized costs on foreclosed assets	(291)	(275)
Proceeds from sales of available-for-sale investment securities	108,485	77,849
Proceeds from maturing investment securities	—	1,830
Proceeds from called investment securities	4,160	29,745
Principal reductions on mortgage-backed securities	179,710	107,581
Purchase of available-for-sale securities	(92,425)	(85,803)
Redemption (purchase) of Federal Home Loan Bank stock	240	2,607
Net cash provided by investing activities	187,934	208,996
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in certificates of deposit	(163,327)	(279,366)

Net increase (decrease) in checking and savings deposits		(136,191)		111,406
Proceeds from Federal Home Loan Bank advances		1,980		—
Repayments of Federal Home Loan Bank advances		(246)		(52,850)
Net decrease in short-term borrowings		(44,625)		(18,823)
Repayments of structured repurchase agreements		(3,000)		—
Advances from borrowers for taxes and insurance		3,660		3,417
Dividends paid		(5,361)		(7,949)
Stock options exercised		1,092		2,164
Net cash used in financing activities		(346,018)		(242,001)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(64,327)		104,935
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		404,141		380,249
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	339,814	$	485,184

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial condition, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2012, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for 2012 filed with the Securities and Exchange Commission.

NOTE 2: NATURE OF OPERATIONS AND OPERATING SEGMENTS

The Company operates as a one-bank holding company. The Company’s business primarily consists of the operations of Great Southern Bank (the “Bank”), which provides a full range of financial services to customers primarily located in Missouri, Iowa, Kansas, Minnesota, Nebraska and Arkansas. The Company and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

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

Effective November 30, 2012, Great Southern Bank sold its Great Southern Travel and Great Southern Insurance divisions. In the Company’s statements of income for the three and nine months ended September 30, 2012, operations of the two divisions have been restated to include all revenues and expenses of the two divisions in discontinued operations.

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-02 to amend FASB ASC Topic 220, Reporting Items Reclassified Out of Accumulated Other Comprehensive Income. The objective of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update require an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The Update does not change the current requirements for reporting of net income or other comprehensive income. The Update was effective for the Company January 1, 2013, and did not have a material impact on the Company's financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-10 to amend FASB ASC Topic 815, Derivatives and Hedging. The Update permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on treasury obligations of the U.S. Government and LIBOR rates, which were previously allowed. The Update was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Update did not have a material impact on the Company's financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 to amend FASB ASC Topic 740, Income Taxes. The objective of this Update is to provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exist. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in specific situations as described in the Update. The Update will be effective for the Company beginning January 1, 2014, and is not expected to have a material impact on the Company's financial position or results of operations.

NOTE 4: STOCKHOLDERS' EQUITY

Previously, the Company's stockholders approved the Company's reincorporation to the State of Maryland. Under Maryland law, there is no concept of "Treasury Shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to Common Stock and Retained Earnings balances.

NOTE 5: EARNINGS PER SHARE

	Three Months Ended September 30,	
	2013	2012
	(In Thousands, Except Per Share Data)	
Basic:		
Average shares outstanding	13,647	13,550
Net income available to common stockholders	$8,294	$6,954
Per share amount	$0.61	$0.51
Income from continuing operations available to common stockholders	$8,294	$6,892
Per share amount	$0.61	$0.50
Income from discontinued operations available to common stockholders	$—	$62
Per share amount	$—	$0.01
Diluted:		
Average shares outstanding	13,647	13,550
Net effect of dilutive stock options and warrants – based on the treasury stock method using average market price	58	119
Diluted shares	13,705	13,669
Net income available to common stockholders	$8,294	$6,954
Per share amount	$0.61	$0.51
Income from continuing operations available to common stockholders	$8,294	$6,892
Per share amount	$0.61	$0.50
Income from discontinued operations available to common stockholders	$—	$62
Per share amount	$—	$0.01

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	Nine Months Ended September 30, 2013	2012
	(In Thousands, Except Per Share Data)	
Basic:		
Average shares outstanding	13,634	13,533
Net income available to common stockholders	$24,621	$35,817
Per share amount	$1.81	$2.65
Income from continuing operations available to common stockholders	$24,621	$35,268
Per share amount	$1.81	$2.61
Income from discontinued operations available to common stockholders	$—	$549
Per share amount	$—	$0.04
Diluted:		
Average shares outstanding	13,634	13,533
Net effect of dilutive stock options and warrants – based on the treasury stock method using average market price	58	119
Diluted shares	13,692	13,652
Net income available to common stockholders	$24,621	$35,817
Per share amount	$1.80	$2.62
Income from continuing operations available to common stockholders	$24,621	$35,268
Per share amount	$1.80	$2.59
Income from discontinued operations available to common stockholders	$—	$549
Per share amount	$—	$0.03

Options to purchase 304,630 and 81,375 shares of common stock were outstanding at September 30, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per share for each of the three month and nine month periods because the options' exercise prices were greater than the average market prices of the common shares for the three and nine months ended September 30, 2013 and 2012, respectively.

NOTE 6: INVESTMENT SECURITIES

	September 30, 2013					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Tax Equivalent Yield	
			(In Thousands)			
AVAILABLE-FOR-SALE SECURITIES:						
U.S. government agencies	$20,000	$—	$2,170	$17,830	2.00	%
Mortgage-backed securities	391,320	5,435	2,862	393,893	1.59	
Small Business Administration loan pools	45,478	1,650	—	47,128	1.46	
States and political subdivisions	117,627	3,037	1,107	119,557	5.51	
Equity securities	847	1,725	—	2,572	—	
	$575,272	$11,847	$6,139	$580,980	2.39	%

HELD-TO-MATURITY SECURITIES:						
States and political subdivisions	$805	$110	$—	$915	7.37	%

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	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Tax Equivalent Yield
	(In Thousands)				
AVAILABLE-FOR-SALE SECURITIES:					
U.S. government agencies	$30,000	$40	$—	$30,040	1.25 %
Collateralized mortgage obligations	3,939	576	8	4,507	1.72
Mortgage-backed securities	582,039	14,861	814	596,086	2.42
Small Business Administration loan pools	50,198	1,295	—	51,493	1.99
States and political subdivisions	114,372	8,506	—	122,878	5.61
Equity securities	847	1,159	—	2,006	—
	$781,395	$26,437	$822	$807,010	2.80 %
HELD-TO-MATURITY SECURITIES:					
States and political subdivisions	$920	$164	$—	$1,084	7.37 %

The amortized cost and fair value of available-for-sale securities at September 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
One year or less	$110	$110
After one through five years	467	473
After five through ten years	10,017	10,216
After ten years	172,511	173,716
Securities not due on a single maturity date	391,320	393,893
Equity securities	847	2,572
	$575,272	$580,980

The held-to-maturity securities at September 30, 2013, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
After five through ten years	$805	$915

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2013 and December 31, 2012, respectively, was approximately $244.1 million and $106.6 million, which is approximately 42.0% and 13.2% of the Company's available-for-sale and held-to-maturity investment portfolio, respectively.

Based on an evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary at September 30, 2013.

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012:

	September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. government agencies	$20,000	$(2,170)	$—	$—	$20,000	$(2,170)
Mortgage-backed securities	182,088	(2,862)	1	—	182,089	(2,862)
State and political subdivisions	42,054	(1,107)	—	—	42,054	(1,107)
	$244,142	$(6,139)	$1	$—	$244,143	$(6,139)

	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Collateralized mortgage obligations	$—	$—	$414	$(8)	$414	$(8)
Mortgage-backed securities	106,136	(814)	—	—	106,136	(814)
	$106,136	$(814)	$414	$(8)	$106,550	$(822)

Gross gains of $644,000 and $795,000 and gross losses of $534,000 and $554,000 resulting from sales of available-for-sale securities were realized for the three and nine months ended September 30, 2013. Gross gains of $572,000 and $2.7 million and gross losses of $66,000 and $625,000 resulting from sales of available-for-sale securities were realized for the three and nine months ended September 30, 2012. Gains and losses on sales of securities are determined on the specific-identification method.

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

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

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

During the three and nine months ended September 30, 2013, no securities were determined to have impairment that was other than temporary. During the nine months ended September 30, 2012, the Company determined that the impairment of a non-agency collateralized mortgage obligation with a book value of $962,000 had become other than temporary. Consequently, the Company recorded a $262,000 pre-tax charge to income.

Credit Losses Recognized on Investments. Certain debt securities have experienced fair value deterioration due to credit losses, as well as due to other market factors, but are not otherwise other-than-temporarily impaired.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income.

	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
July 1, 2013	$—
Additions related to other-than-temporary losses not previously recognized	—
Additions related to increases in credit losses on debt securities for which other-than-temporary impairment losses were previously recognized	—
Reductions due to final principal payments	—
September 30, 2013	$—

	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
July 1, 2012	$3,860
Additions related to other-than-temporary losses not previously recognized	—
Additions related to increases in credit losses on debt securities for which other-than-temporary impairment losses were previously recognized	—
Reductions due to sales	—
September 30, 2012	$3,860

	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
January 1, 2013	$4,176
Additions related to other-than-temporary losses not previously recognized	—
Additions related to increases in credit losses on debt securities for which other-than-temporary impairment losses were previously recognized	—
Reductions due to final principal payments	(4,176)
September 30, 2013	$—

	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	

January 1, 2012	$3,598
Additions related to other-than-temporary losses not previously recognized	—
Additions related to increases in credit losses on debt securities for which other-than-temporary impairment losses were previously recognized	262
Reductions due to sales	—
September 30, 2012	$3,860

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Amounts Reclassified Out of Accumulated Other Comprehensive Income. Amounts reclassified from accumulated other comprehensive income and the affected line items in the statements of income during the three and nine months ended September 30, 2013 and 2012, were as follows (in thousands):

	Amounts Reclassified from Other Comprehensive Income Three Months Ended September 30,		
	2013	2012	Affected Line Item in the Statements of Income
	(In Thousands)		
Unrealized gains (losses) on available-for-sale securities	$110	$507	Net realized gains on available-for-sale securities (Total reclassified amount before tax)
Income Taxes	(38)	(177)	Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	$72	$330	

	Amounts Reclassified from Other Comprehensive Income Nine months Ended September 30,		
	2013	2012	Affected Line Item in the Statements of Income
	(In Thousands)		
Unrealized gains (losses) on available-for-sale securities	$241	$1,787	Net realized gains on available-for-sale securities (Total reclassified amount before tax)
Income Taxes	(84)	(625)	Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	$157	$1,162	

NOTE 7: LOANS AND ALLOWANCE FOR LOAN LOSSES

	September 30, 2013	December 31, 2012
	(In Thousands)	
One- to four-family residential construction	$33,454	$29,071
Subdivision construction	34,264	35,805
Land development	62,368	62,559
Commercial construction	174,691	150,515
Owner occupied one- to four-family residential	86,390	83,859
Non-owner occupied one- to four-family residential	144,100	145,458
Commercial real estate	757,679	692,377
Other residential	252,608	267,518
Commercial business	279,874	264,631
Industrial revenue bonds	41,016	43,762
Consumer auto	122,329	82,610
Consumer other	83,639	83,815
Home equity lines of credit	56,885	54,225
FDIC-supported loans, net of discounts (TeamBank)	55,825	77,615
FDIC-supported loans, net of discounts (Vantus Bank)	68,489	95,483
FDIC-supported loans, net of discounts (Sun Security Bank)	70,020	91,519
FDIC-supported loans, net of discounts (InterBank)	218,962	259,232
	2,542,593	2,520,054
Undisbursed portion of loans in process	(171,473)	(157,574)
Allowance for loan losses	(39,456)	(40,649)
Deferred loan fees and gains, net	(2,926)	(2,193)
	$2,328,738	$2,319,638
Weighted average interest rate	5.12%	5.39%

Classes of loans by aging were as follows:

	September 30, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Still Accruing
				(In Thousands)			
One- to four-family residential construction	$—	$—	$—	$—	$33,454	$33,454	$—
Subdivision construction	2,047	—	879	2,926	31,338	34,264	—
Land development	6,905	182	260	7,347	55,021	62,368	—
Commercial construction	—	—	—	—	174,691	174,691	—
Owner occupied one- to four-family residential	423	454	2,475	3,352	83,038	86,390	183
Non-owner occupied one- to four-family residential	3,222	229	1,173	4,624	139,476	144,100	115
Commercial real estate	7,591	161	9,765	17,517	740,162	757,679	—
Other residential	2,375	—	713	3,088	249,520	252,608	—
Commercial business	871	13	4,878	5,762	274,112	279,874	—
Industrial revenue bonds	—	—	—	—	41,016	41,016	—
Consumer auto	907	132	149	1,188	121,141	122,329	10
Consumer other	1,118	321	686	2,125	81,514	83,639	310
Home equity lines of credit	319	54	410	783	56,102	56,885	—
FDIC-supported loans, net of discounts (TeamBank)	173	46	3,690	3,909	51,916	55,825	—
FDIC-supported loans, net of discounts (Vantus Bank)	213	824	1,730	2,767	65,722	68,489	—
FDIC-supported loans, net of discounts (Sun Security Bank)	123	337	6,242	6,702	63,318	70,020	—
FDIC-supported loans, net of discounts (InterBank)	1,346	2,249	20,168	23,763	195,199	218,962	110
	27,633	5,002	53,218	83,853	2,456,740	2,542,593	728
Less FDIC-supported loans, net of discounts	1,855	3,456	31,830	37,141	376,155	413,296	110
Total	$25,778	$1,546	$21,388	$48,713	$2,080,585	$2,129,297	$618

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	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Still Accruing
	(In Thousands)						
One- to four-family residential construction	$178	$—	$—	$178	$28,893	$29,071	$—
Subdivision construction	478	—	3	481	35,324	35,805	—
Land development	—	—	2,471	2,471	60,088	62,559	—
Commercial construction	—	—	—	—	150,515	150,515	—
Owner occupied one- to four-family residential	3,305	263	2,352	5,920	77,939	83,859	237
Non-owner occupied one- to four-family residential	2,600	—	1,905	4,505	140,953	145,458	—
Commercial real estate	1,346	726	8,324	10,396	681,981	692,377	—
Other residential	3,741	—	—	3,741	263,777	267,518	—
Commercial business	2,094	153	4,139	6,386	258,245	264,631	—
Industrial revenue bonds	—	—	2,110	2,110	41,652	43,762	—
Consumer auto	690	73	120	883	81,727	82,610	26
Consumer other	1,522	242	834	2,598	81,217	83,815	449
Home equity lines of credit	185	146	220	551	53,674	54,225	—
FDIC-supported loans, net of discounts (TeamBank)	1,608	2,077	8,020	11,705	65,910	77,615	173
FDIC-supported loans, net of discounts (Vantus Bank)	1,545	669	5,641	7,855	87,628	95,483	—
FDIC-supported loans, net of discounts (Sun Security Bank)	1,539	384	21,342	23,265	68,254	91,519	1,274
FDIC-supported loans, net of discounts (InterBank)	10,212	4,662	33,928	48,802	210,430	259,232	347
	31,043	9,395	91,409	131,847	2,388,207	2,520,054	2,506
Less FDIC-supported loans, net of discounts	14,904	7,792	68,931	91,627	432,222	523,849	1,794
Total	$16,139	$1,603	$22,478	$40,220	$1,955,985	$1,996,205	$712

Nonaccruing loans (excluding FDIC-supported loans, net of discount) are summarized as follows:

	September 30, 2013	December 31, 2012
	(In Thousands)	
One- to four-family residential construction	$—	$—
Subdivision construction	879	3
Land development	260	2,471
Commercial construction	—	—
Owner occupied one- to four-family residential	2,292	2,115
Non-owner occupied one- to four-family residential	1,058	1,905
Commercial real estate	9,765	8,324
Other residential	713	—
Commercial business	4,878	6,249
Consumer auto	139	94
Consumer other	376	385
Home equity lines of credit	410	220
Total	$20,770	$21,766

The following table presents the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2013. Also presented are the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2013:

	One- to Four-Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
				(In Thousands)			
Allowance for loan losses							
Balance July 1, 2013	$6,125	$3,373	$16,419	$5,789	$5,664	$2,815	$40,185
Provision (benefit) charged to expense	(234)	(372)	1,474	1,291	(1,732)	2,250	2,677
Losses charged off	(847)	(201)	(608)	(346)	(1,303)	(2,215)	(5,520)
Recoveries	87	6	888	50	648	435	2,114
Balance September 30, 2013	$5,131	$2,806	$18,173	$6,784	$3,277	$3,285	$39,456
Balance January 1, 2013	$6,822	$4,327	$17,441	$3,938	$5,096	$3,025	$40,649
Provision charged to expense	292	1,329	6,736	3,413	137	2,666	14,573
Losses charged off	(2,088)	(2,887)	(7,138)	(675)	(2,672)	(3,884)	(19,344)
Recoveries	105	37	1,134	108	716	1,478	3,578
Balance September 30, 2013	$5,131	$2,806	$18,173	$6,784	$3,277	$3,285	$39,456
Ending balance:							
Individually evaluated for impairment	$1,650	$169	$2,416	$2,192	$1,512	$208	$8,147
Collectively evaluated for impairment	$3,481	$2,637	$15,754	$4,592	$1,762	$3,071	$31,297
Loans acquired and accounted for under ASC 310-30	$—	$—	$3	$—	$4	$5	$12
Loans							
Individually evaluated for impairment	$13,310	$11,367	$40,981	$15,444	$8,836	$1,189	$91,127

Collectively evaluated for impairment	$284,897	$241,241	$ 757,715	$ 221,615	$ 271,038	$261,664	$2,038,170
Loans acquired and accounted for under ASC 310-30	$235,141	$41,772	$ 94,417	$ 6,041	$ 6,780	$29,145	$413,296

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The following table presents the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2012:

	One- to Four-Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
				(In Thousands)			
Allowance for loan losses							
Balance July 1, 2012	$7,899	$4,012	$15,592	$6,929	$3,341	$2,949	$40,722
Provision (benefit) charged to expense	(724)	348	2,950	4,227	1,512	87	8,400
Losses charged off	(245)	(310)	(1,579)	(6,870)	(648)	(699)	(10,351)
Recoveries	65	22	448	471	110	420	1,536
Balance September 30, 2012	$6,995	$4,072	$17,411	$4,757	$4,315	$2,757	$40,307
Balance January 1, 2012	$11,424	$3,088	$18,390	$2,982	$2,974	$2,374	$41,232
Provision (benefit) charged to expense	(1,830)	4,206	12,265	17,525	2,758	1,153	36,077
Losses charged off	(2,740)	(3,562)	(13,784)	(16,462)	(1,701)	(1,661)	(39,910)
Recoveries	141	340	540	712	284	891	2,908
Balance September 30, 2012	$6,995	$4,072	$17,411	$4,757	$4,315	$2,757	$40,307

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2012:

	One- to Four-Family Residential and Construction	Other Residential	Commercial Real Estate	Commercial Construction	Commercial Business	Consumer	Total
				(In Thousands)			
Allowance for loan losses							
Individually evaluated for impairment	$2,288	$1,089	$4,990	$96	$2,778	$156	$11,397
Collectively evaluated for							

impairment	$4,532	$3,239	$ 12,443	$ 3,842	$ 2,315	$2,864	$29,235
Loans acquired and accounted for under ASC 310-30	$1	$—	$ 9	$ —	$ 4	$3	$17
Loans							
Individually evaluated for impairment	$14,691	$16,405	$ 48,476	$ 12,009	$ 10,064	$980	$102,625
Collectively evaluated for impairment	$279,502	$251,113	$ 687,663	$ 201,065	$ 254,567	$219,670	$1,893,580
Loans acquired and accounted for under ASC 310-30	$278,889	$53,280	$ 129,128	$ 7,997	$ 14,939	$39,616	$523,849

The portfolio segments used in the preceding two tables correspond to the loan classes used in all other tables in Note 7 as follows:

- The one-to four-family residential and construction segment includes the one- to four-family residential construction, subdivision construction, owner occupied one- to four-family residential and non-owner occupied one- to four-family residential classes
- The other residential segment corresponds to the other residential class
- The commercial real estate segment includes the commercial real estate and industrial revenue bonds classes
- The commercial construction segment includes the land development and commercial construction classes
- The commercial business segment corresponds to the commercial business class
- The consumer segment includes the consumer auto, consumer other and home equity lines of credit classes

Impaired loans (excluding FDIC-supported loans, net of discount), are summarized as follows:

	September 30, 2013		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
	(In Thousands)		
One- to four-family residential construction	$—	$—	$—
Subdivision construction	3,785	3,896	851
Land development	15,444	15,848	2,192
Commercial construction	—	—	—
Owner occupied one- to four-family residential	5,174	5,393	430
Non-owner occupied one- to four-family residential	4,351	5,233	369
Commercial real estate	40,981	42,507	2,416
Other residential	11,367	11,367	169
Commercial business	6,138	6,140	1,512
Industrial revenue bonds	2,698	2,778	—
Consumer auto	184	228	28
Consumer other	595	664	89
Home equity lines of credit	410	424	91
Total	$91,127	$94,478	$8,147

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
One- to four-family residential construction	$48	$—	$48	$5
Subdivision construction	4,062	34	3,206	140
Land development	15,573	111	13,025	477
Commercial construction	—	—	—	—
Owner occupied one- to four-family residential	5,035	60	4,899	176
Non-owner occupied one- to four-family residential	4,832	12	5,112	173
Commercial real estate	40,792	506	44,374	1,246
Other residential	11,444	136	14,895	353
Commercial business	6,274	86	7,074	161
Industrial revenue bonds	2,698	—	2,701	14
Consumer auto	153	7	130	11
Consumer other	593	12	639	44
Home equity lines of credit	333	10	316	20

Total	$91,837	$974	$96,419	$2,820

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	At or for the Year Ended December 31, 2012				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
			(In Thousands)		
One- to four-family residential construction	$410	$410	$239	$679	$22
Subdivision construction	2,577	2,580	688	8,399	143
Land development	12,009	13,204	96	12,614	656
Commercial construction	—	—	—	383	—
Owner occupied one- to four-family residential	5,627	6,037	550	5,174	295
Non-owner occupied one- to four-family residential	6,077	6,290	811	10,045	330
Commercial real estate	48,476	49,779	4,990	45,181	2,176
Other residential	16,405	16,405	1,089	16,951	836
Commercial business	7,279	8,615	2,778	4,851	329
Industrial revenue bonds	2,785	2,865	—	3,034	5
Consumer auto	143	170	22	157	17
Consumer other	602	682	89	654	65
Home equity lines of credit	235	248	45	162	15
Total	$102,625	$107,285	$11,397	$108,284	$4,889

	September 30, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
		(In Thousands)	
One- to four-family residential construction	$612	$612	$283
Subdivision construction	3,204	4,854	310
Land development	11,922	18,665	755
Commercial construction	—	—	—
Owner occupied one- to four-family residential	5,168	5,392	493
Non-owner occupied one- to four-family residential	9,067	9,491	615
Commercial real estate	49,052	49,921	3,299
Other residential	18,517	19,781	711
Commercial business	3,423	3,774	1,541
Industrial revenue bonds	2,785	2,865	—
Consumer auto	160	177	25
Consumer other	781	837	116
Home equity lines of credit	177	177	36
Total	$104,868	$116,546	$8,184

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	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
One- to four-family residential construction	$612	$6	$738	$17
Subdivision construction	3,188	153	10,225	153
Land development				