GREAT SOUTHERN BANCORP INC
Form 10-Q
November 10, 2014

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, 2014

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 / / (Do not check if a smaller reporting company)	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: 13,727,671 shares of common stock, par value $.01, outstanding at November 6, 2014.

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, 2014 (Unaudited)	DECEMBER 31, 2013
ASSETS		
Cash	$94,682	$96,167
Interest-bearing deposits in other financial institutions	126,704	131,758
Cash and cash equivalents	221,386	227,925
Available-for-sale securities	425,156	555,281
Held-to-maturity securities (fair value $505 – September 2014; $912 - December 2013)	450	805
Mortgage loans held for sale	30,361	7,239
Loans receivable, net of allowance for loan losses of $38,081 – September 2014; $40,116 - December 2013	2,921,310	2,439,530
FDIC indemnification asset	51,603	72,705
Interest receivable	11,214	11,408
Prepaid expenses and other assets	63,334	72,904
Other real estate owned, net	43,762	53,514
Premises and equipment, net	120,891	104,534
Goodwill and other intangible assets	7,945	4,583
Investment in Federal Home Loan Bank stock	12,013	9,822
Total Assets	$3,909,425	$3,560,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$3,071,170	$2,808,626
Federal Home Loan Bank advances	190,664	126,757
Securities sold under reverse repurchase agreements with customers	171,828	134,981
Short-term borrowings	1,155	1,128
Structured repurchase agreements	—	50,000
Subordinated debentures issued to capital trusts	30,929	30,929
Accrued interest payable	1,024	1,099
Advances from borrowers for taxes and insurance	7,744	3,721
Accounts payable and accrued expenses	22,258	18,502
Current and deferred income tax liability	3,603	3,809
Total Liabilities	3,500,375	3,179,552
Stockholders' Equity:		
Capital stock		
Serial preferred stock – $.01 par value; authorized 1,000,000 shares; issued and outstanding September 2014 and December 2013 - 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 2014 – 13,706,950 shares; December 2013 - 13,673,709 shares	137	137
Additional paid-in capital	21,486	19,567
Retained earnings	322,529	300,589
Accumulated other comprehensive income	6,955	2,462
Total Stockholders' Equity	409,050	380,698
Total Liabilities and Stockholders' Equity	$3,909,425	$3,560,250

See Notes to Consolidated Financial Statements

2

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2014	2013 Retrospectively Adjusted – Note 3
	(Unaudited)	
INTEREST INCOME		
Loans	$44,948	$40,087
Investment securities and other	2,659	2,932
TOTAL INTEREST INCOME	47,607	43,019
INTEREST EXPENSE		
Deposits	2,884	2,822
Federal Home Loan Bank advances	461	1,005
Short-term borrowings and repurchase agreements	13	587
Subordinated debentures issued to capital trusts	143	141
TOTAL INTEREST EXPENSE	3,501	4,555
NET INTEREST INCOME	44,106	38,464
PROVISION FOR LOAN LOSSES	945	2,677
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	43,161	35,787
NON-INTEREST INCOME		
Commissions	284	158
Service charges and ATM fees	5,168	4,729
Net realized gains on sales of loans	1,543	1,179
Net realized gains on sales of available-for-sale securities	321	110
Late charges and fees on loans	248	284
Gain (loss) on derivative interest rate products	10	(125)
Accretion (amortization) of income/expense related to business acquisitions	(6,463)	(6,339)
Other income	667	933
TOTAL NON-INTEREST INCOME	1,778	929
NON-INTEREST EXPENSE		
Salaries and employee benefits	14,884	13,034
Net occupancy and equipment expense	6,172	5,216
Postage	935	790
Insurance	940	1,083
Advertising	522	433
Office supplies and printing	393	320
Telephone	695	679
Legal, audit and other professional fees	1,389	1,186
Expense on foreclosed assets	982	1,068
Partnership tax credit investment amortization	420	556
Other operating expenses	2,066	1,791
TOTAL NON-INTEREST EXPENSE	29,398	26,156

INCOME BEFORE INCOME TAXES	15,541	10,560
PROVISION FOR INCOME TAXES	3,951	2,121
NET INCOME	11,590	8,439
Preferred stock dividends	145	145
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$11,445	$8,294

3

	THREE MONTHS ENDED SEPTEMBER 30, 2014	2013
BASIC EARNINGS PER COMMON SHARE	$ 0.84	$ 0.61
DILUTED EARNINGS PER COMMON SHARE	$ 0.83	$ 0.61
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.20	$ 0.18

See Notes to Consolidated Financial Statements

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, 2014	NINE MONTHS ENDED SEPTEMBER 30, 2013 Retrospectively Adjusted – Note 3
	(Unaudited)	(Unaudited)
INTEREST INCOME		
Loans	$125,669	$122,226
Investment securities and other	8,617	11,630
TOTAL INTEREST INCOME	134,286	133,856
INTEREST EXPENSE		
Deposits	8,297	9,611
Federal Home Loan Bank advances	2,446	2,968
Short-term borrowings and repurchase agreements	1,082	1,758
Subordinated debentures issued to capital trusts	418	421
TOTAL INTEREST EXPENSE	12,243	14,758
NET INTEREST INCOME	122,043	119,098
PROVISION FOR LOAN LOSSES	4,099	14,573
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	117,944	104,525
NON-INTEREST INCOME		
Commissions	910	836
Service charges and ATM fees	14,064	13,800
Net realized gains on sales of loans	2,700	4,236
Net realized gains on sales of available-for-sale securities	963	241
Late charges and fees on loans	827	785
Gain (loss) on derivative interest rate products	(223)	283
Initial gain recognized on business acquisition	10,805	—
Accretion (amortization) of income/expense related to business acquisitions	(20,061)	(17,900)
Other income	3,347	3,898
TOTAL NON-INTEREST INCOME	13,332	6,179
NON-INTEREST EXPENSE		
Salaries and employee benefits	41,371	39,334
Net occupancy and equipment expense	16,786	15,451
Postage	2,572	2,454
Insurance	2,820	3,204
Advertising	1,690	1,599
Office supplies and printing	1,050	950
Telephone	2,112	2,169
Legal, audit and other professional fees	3,230	2,936
Expense on foreclosed assets	3,173	3,478
Partnership tax credit investment amortization	1,300	1,552

Other operating expenses	13,585	5,663
TOTAL NON-INTEREST EXPENSE	89,689	78,790
INCOME BEFORE INCOME TAXES	41,587	31,914
PROVISION FOR INCOME TAXES	10,125	6,858
NET INCOME	31,462	25,056
Preferred stock dividends	435	435
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$31,027	$24,621

	NINE MONTHS ENDED SEPTEMBER 30,			
	2014		2013	
BASIC EARNINGS PER COMMON SHARE	$	2.27	$	1.81
DILUTED EARNINGS PER COMMON SHARE	$	2.25	$	1.80
DIVIDENDS DECLARED PER COMMON SHARE	$	0.60	$	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, 2014	2013
	(Unaudited)	
Net Income	$11,590	$8,439
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of $127 and $(2,812), for 2014 and 2013, respectively	236	(5,221)
Reclassification adjustment for gains included in net income, net of taxes of $(112) and $(38), for 2014 and 2013, respectively	(209)	(72)
Change in fair value of cash flow hedge, net of taxes (credit) of $29 and $(24), for 2014 and 2013, respectively	53	(45)
Comprehensive Income	$11,670	$3,101

	NINE MONTHS ENDED SEPTEMBER 30, 2014	2013
	(Unaudited)	
Net Income	$31,462	$25,056
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of $2,805 and $(6,863), for 2014 and 2013, respectively	5,209	(12,745)
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 $(20), for 2014 and 2013, respectively	—	(37)
Reclassification adjustment for gains included in net income, net of taxes of $(337) and $(84), for 2014 and 2013, respectively	(626)	(157)
Change in fair value of cash flow hedge, net of taxes (credit) of $(67) and $(24), for 2014 and 2013, respectively	(90)	(45)
Comprehensive Income	$35,955	$12,072

See Notes to Consolidated Financial Statements

7

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

	NINE MONTHS ENDED SEPTEMBER 30, 2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 31,462	$ 25,056
Proceeds from sales of loans held for sale	101,872	184,382
Originations of loans held for sale	(122,252)	(171,035)
Items not requiring (providing) cash:		
Depreciation	6,410	5,971
Amortization of other assets	2,385	5,421
Compensation expense for stock option grants	409	333
Provision for loan losses	4,099	14,573
Net gains on loan sales	(2,700)	(4,236)
Net gains on sale of available-for-sale investment securities	(963)	(241)
Net gains on sale of premises and equipment	(46)	(10)
Loss on sale of foreclosed assets	1,360	1,823
Initial gain recognized on business acquisition	(10,805)	—
Amortization of deferred income, premiums, discounts and fair value adjustments	17,023	22,518
(Gain) loss on derivative interest rate products	223	(284)
Deferred income taxes	(4,370)	(13,625)
Changes in:		
Interest receivable	1,232	1,823
Prepaid expenses and other assets	4,187	(8,339)
Accounts payable and accrued expenses	2,685	4,376
Income taxes refundable/payable	1,744	668
Net cash provided by operating activities	33,955	69,174
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(243,837)	(19,044)
Purchase of loans	(73,244)	(20,388)
Cash received from acquisitions	189,437	—
Cash received from FDIC loss sharing reimbursements	7,532	24,583
Purchase of premises and equipment	(11,598)	(9,761)
Proceeds from sale of premises and equipment	198	1,275
Proceeds from sale of foreclosed assets	17,661	35,973
Capitalized costs on foreclosed assets	(95)	(291)
Proceeds from sales of available-for-sale investment securities	179,204	108,485
Proceeds from maturing investment securities	110	—
Proceeds from called investment securities	6,235	4,160
Principal reductions on mortgage-backed securities	78,228	179,710
Purchase of available-for-sale securities	(40,661)	(92,425)
Redemption (purchase) of Federal Home Loan Bank stock	(2,191)	240
Net cash provided by investing activities	106,979	212,517

CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in certificates of deposit	(89,219)	(163,327)
Net decrease in checking and savings deposits	(106,924)	(136,191)
Proceeds from Federal Home Loan Bank advances	2,517,000	1,980
Repayments of Federal Home Loan Bank advances	(2,450,300)	(246)
Net increase (decrease) in short-term borrowings	36,307	(44,625)
Repayments of structured repurchase agreements	(50,000)	(3,000)
Advances from borrowers for taxes and insurance	3,395	3,660
Dividends paid	(8,371)	(5,361)
Purchase of company stock	(512)	—
Stock options exercised	1,151	1,092
Net cash used in financing activities	(147,473)	(346,018)
DECREASE IN CASH AND CASH EQUIVALENTS	(6,539)	(64,327)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	227,925	404,141
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 221,386	$ 339,814

See Notes to Consolidated Financial Statements

8

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, 2014 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, 2013, 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 2013 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. In addition, the Company operates commercial loan production offices in Dallas, Texas and Tulsa, Oklahoma. 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.

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU No. 2014-01 to amend FASB ASC Topic 323, Investments – Equity Method and Joint Ventures. The objective of this Update is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The Update would be effective for the Company beginning January 1, 2015; however, early adoption was permitted. The Company elected to adopt this Update early, adopting it during the three months ended March 31, 2014. There was no material impact on the Company's financial position or results of operations, except that the investment amortization expense which was previously included in Other Noninterest Expense in the Consolidated Statements of Income was moved from Other Noninterest Expense to Provision for Income Taxes in the Consolidated Statements of Income. For the three months ended September 30, 2013, $1.0 million was moved from Other Noninterest Expense to Provision for Income Taxes. For the nine months ended September 30, 2013, $2.9 million was moved from Other Noninterest Expense to Provision for Income Taxes. This had the effect of reducing Noninterest Expense and increasing Provision for Income Taxes, but did not have any impact on Net Income.

In January 2014, the FASB issued ASU No. 2014-04 to amend FASB ASC Topic 310, Receivables – Troubled Debt Restructurings by Creditors. The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Update will be effective for the Company beginning January 1, 2015, and is not expected to have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016 and early application is not permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance 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,	
	2014	2013
	(In Thousands, Except Per Share Data)	
Basic:		
Average shares outstanding	13,696	13,647
Net income available to common stockholders	$11,445	$8,294
Per common share amount	$0.84	$0.61
Diluted:		
Average shares outstanding	13,696	13,647
Net effect of dilutive stock options – based on the treasury stock method using average market price	89	58

Diluted shares	13,785	13,705
Net income available to common stockholders	$11,445	$8,294
Per common share amount	$0.83	$0.61

10

	Nine Months Ended September 30,	
	2014	2013
	(In Thousands, Except Per Share Data)	
Basic:		
Average shares outstanding	13,693	13,634
Net income available to common stockholders	$31,027	$24,621
Per share amount	$2.27	$1.81
Diluted:		
Average shares outstanding	13,693	13,634
Net effect of dilutive stock options – based on the treasury stock method using average market price	75	58
Diluted shares	13,768	13, 692
Net income available to common stockholders	$31,027	$24,621
Per share amount	$2.25	$1.80

Options to purchase 118,600 and 304,630 shares of common stock were outstanding at September 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share for the three month periods because the options' exercise prices were greater than the average market prices of the common shares for the three months ended September 30, 2014 and 2013, respectively. Options to purchase 232,735 and 304,630 shares of common stock were outstanding at September 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per common share for the nine month periods because the options' exercise prices were greater than the average market prices of the common shares for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 6: INVESTMENT SECURITIES

	September 30, 2014					
	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	$—	$1,063	$18,937	2.00	%
Mortgage-backed securities	273,358	4,502	1,233	276,627	2.02	
States and political subdivisions	120,060	6,713	226	126,547	5.37	
Equity securities	847	2,198	—	3,045	—	
	$414,265	$13,413	$2,522	$425,156	2.98	%
HELD-TO-MATURITY SECURITIES:						
States and political subdivisions	$450	$55	$—	$505	7.37	%

	December 31, 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	$—	$2,745	$17,255	2.00	%
Mortgage-backed securities	365,020	4,824	2,266	367,578	2.04	
Small Business Administration loan pools	43,461	1,394	—	44,855	1.34	
States and political subdivisions	122,113	2,549	1,938	122,724	5.47	
Equity securities	847	2,022	—	2,869	—	
	$551,441	$10,789	$6,949	$555,281	2.74	%
HELD-TO-MATURITY SECURITIES:						
States and political subdivisions	$805	$107	$—	$912	7.37	%

11

The amortized cost and fair value of available-for-sale securities at September 30, 2014, 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	$111
After one through five years	1,472	1,486
After five through ten years	7,504	7,794
After ten years	130,974	136,093
Securities not due on a single maturity date	273,358	276,627
Equity securities	847	3,045
	$414,265	$425,156

The held-to-maturity securities at September 30, 2014, 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 one through five years	$450	$505

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, 2014 and December 31, 2013, respectively, was approximately $131.5 million and $237.6 million, which is approximately 30.9% and 42.7% 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, 2014.

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, 2014 and December 31, 2013:

	September 30, 2014					
	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	$(1,063)	$20,000	$(1,063)
Mortgage-backed securities	51,442	(514)	46,054	(719)	97,496	(1,233)
State and political subdivisions	2,561	(8)	11,393	(218)	13,954	(226)
	$54,003	$(522)	$77,447	$(2,000)	$131,450	$(2,522)

12

	December 31, 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	$(2,745)	$—	$—	$20,000	$(2,745)
Mortgage-backed securities	127,901	(1,871)	39,255	(395)	167,156	(2,266)
State and political subdivisions	50,401	(1,938)	—	—	50,401	(1,938)
	$198,302	$(6,554)	$39,255	$(395)	$237,557	$(6,949)

Gross gains of $656,000 and $1.3 million and gross losses of $335,000 and $335,000 resulting from sales of available-for-sale securities were realized for the three and nine months ended September 30, 2014, respectively. 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, respectively. 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, 2014, no securities were determined to have impairment that was other than temporary.

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.

13

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	
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	$—

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, 2014 and 2013, were as follows:

	Amounts Reclassified from Other Comprehensive Income Three Months Ended September 30, 2014 (In Thousands)	2013	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available-for-sale securities	$321	$110	Net realized gains on available-for-sale securities (Total reclassified amount before tax)
Income Taxes	(112)	(38)	Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	$209	$72	

	Amounts Reclassified from Other Comprehensive Income Nine Months Ended September 30, 2014 (In Thousands)	2013	Affected Line Item in the Statements of Income
Unrealized gains (losses) on available-for-sale securities	$963	$241	Net realized gains on available-for-sale securities (Total reclassified amount before tax)

Income Taxes	(337)	(84)	Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	$626	$157	

14

NOTE 7: LOANS AND ALLOWANCE FOR LOAN LOSSES

	September 30, 2014	December 31, 2013
	(In Thousands)	
One- to four-family residential construction	$43,386	$34,662
Subdivision construction	35,344	40,409
Land development	48,581	57,841
Commercial construction	361,971	184,019
Owner occupied one- to four-family residential	78,984	89,133
Non-owner occupied one- to four-family residential	143,414	145,908
Commercial real estate	872,294	780,690
Other residential	353,225	325,599
Commercial business	349,387	315,269
Industrial revenue bonds	42,941	42,230
Consumer auto	274,250	134,717
Consumer other	78,676	82,260
Home equity lines of credit	61,152	58,283
FDIC-supported loans, net of discounts (TeamBank)	15,294	49,862
Acquired loans no longer covered by FDIC loss sharing agreements, net of discounts (TeamBank) ("acquired non-covered loans")	28,341	—
FDIC-supported loans, net of discounts (Vantus Bank)	43,653	57,920
FDIC-supported loans, net of discounts (Sun Security Bank)	54,394	64,843
FDIC-supported loans, net of discounts (InterBank)	203,787	213,539
Acquired loans not covered by FDIC loss sharing agreements, net of discounts (Valley Bank) (“acquired non-covered loans”)	152,497	—
	3,241,571	2,677,184
Undisbursed portion of loans in process	(279,435)	(194,544)
Allowance for loan losses	(38,081)	(40,116)
Deferred loan fees and gains, net	(2,745)	(2,994)
	$2,921,310	$2,439,530
Weighted average interest rate	4.78%	5.10%

15

Classes of loans by aging were as follows:

	September 30, 2014						
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days Past Due and Still Accruing
				(In Thousands)			
One- to four-family residential construction	$—	$—	$223	$223	$43,163	$43,386	$—
Subdivision construction	—	—	1,223	1,223	34,121	35,344	—
Land development	—	—	265	265	48,316	48,581	—
Commercial construction	—	—	—	—	361,971	361,971	—
Owner occupied one- to four-family residential	184	565	1,616	2,365	76,619	78,984	170
Non-owner occupied one- to four-family residential	—	168	2,997	3,165	140,249	143,414	—
Commercial real estate	—	59	2,968	3,027	869,267	872,294	—
Other residential	—	—	—	—	353,225	353,225	—
Commercial business	21	13	427	461	348,926	349,387	—
Industrial revenue bonds	—	—	1,205	1,205	41,736	42,941	—
Consumer auto	144	1,331	131	1,606	272,644	274,250	—
Consumer other	168	1,025	649	1,842	76,834	78,676	244
Home equity lines of credit	46	404	337	787	60,365	61,152	—
FDIC-supported loans, net of discounts (TeamBank)	65	115	415	595	14,699	15,294	—
Acquired non-covered loans, net of discounts (TeamBank)	—	—	—	—	28,341	28,341	—
FDIC-supported loans, net of discounts (Vantus Bank)	85	12	1,022	1,119	42,534	43,653	56
FDIC-supported loans, net of discounts (Sun Security Bank)	353	149	2,714	3,216	51,178	54,394	—
FDIC-supported loans, net of discounts (InterBank)	696	1,375	14,731	16,802	186,985	203,787	—
Acquired non-covered loans, net of discounts							

(Valley Bank)	9,727	2,716	12,329	24,772	127,725	152,497	—
	11,489	7,932	43,252	62,673	3,178,898	3,241,571	470
Less FDIC-supported loans, and acquired non-covered loans, net of discounts	10,926	4,367	31,211	46,504	451,462	497,966	56
Total	$563	$3,565	$12,041	$16,169	$2,727,436	$2,743,605	$414

16

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days Past Due and Still Accruing
	(In Thousands)						
One- to four-family residential construction	$—	$—	$—	$—	$34,662	$34,662	$—
Subdivision construction	—	—	871	871	39,538	40,409	—
Land development	145	38	338	521	57,320	57,841	—
Commercial construction	—	—	—	—	184,019	184,019	—
Owner occupied one- to four-family residential	1,233	344	3,014	4,591	84,542	89,133	211
Non-owner occupied one- to four-family residential	1,562	171	843	2,576	143,332	145,908	140
Commercial real estate	2,856	131	6,205	9,192	771,498	780,690	—
Other residential	—	—	—	—	325,599	325,599	—
Commercial business	17	19	5,208	5,244	310,025	315,269	—
Industrial revenue bonds	—	—	2,023	2,023	40,207	42,230	—
Consumer auto	955	127	168	1,250	133,467	134,717	—
Consumer other	1,258	333	732	2,323	79,937	82,260	257
Home equity lines of credit	168	16	504	688	57,595	58,283	—
FDIC-supported loans, net of discounts (TeamBank)	414	130	1,396	1,940	47,922	49,862	6
FDIC-supported loans, net of discounts (Vantus Bank)	675	31	2,356	3,062	54,858	57,920	42
FDIC-supported loans, net of discounts (Sun Security Bank)	510	121	4,241	4,872	59,971	64,843	147
FDIC-supported loans, net of discounts (InterBank)	6,024	1,567	16,768	24,359	189,180	213,539	20
	15,817	3,028	44,667	63,512	2,613,672	2,677,184	823
Less FDIC-supported loans, net of discounts	7,623	1,849	24,761	34,233	351,931	386,164	215
Total	$8,194	$1,179	$19,906	$29,279	$2,261,741	$2,291,020	$608

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

	September 30, 2014	December 31, 2013
	(In Thousands)	
One- to four-family residential construction	$223	$—
Subdivision construction	1,223	871
Land development	265	338
Commercial construction	—	—
Owner occupied one- to four-family residential	1,446	2,803
Non-owner occupied one- to four-family residential	2,997	703
Commercial real estate	2,968	6,205
Other residential	—	—
Commercial business	1,632	5,208
Industrial revenue bonds	—	2,023
Consumer auto	131	168
Consumer other	405	475
Home equity lines of credit	337	504
Total	$11,627	$19,298

The following table presents the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014. Also presented is 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, 2014:

	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 June 30, 2014	$5,073	$1,723	$16,476	$8,249	$2,582	$3,979	$38,082
Provision (benefit) charged to expense	(1,647)	545	2,838	(2,499)	632	1,076	945
Losses charged off	(106)	—	(520)	(1)	(50)	(1,107)	(1,784)
Recoveries	120	14	170	24	—	510	838
Balance September 30, 2014	$3,440	$2,282	$18,964	$5,773	$3,164	$4,458	$38,081
Balance January 1, 2014	$6,235	$2,678	$16,939	$4,464	$6,451	$3,349	$40,116
Provision (benefit) charged to expense	(1,280)	(423)	2,704	1,263	(619)	2,454	4,099
Losses charged off	(1,803)	(2)	(1,239)	(131)	(2,737)	(2,891)	(8,803)
Recoveries	288	29	560	177	69	1,546	2,669
Balance September 30, 2014	$3,440	$2,282	$18,964	$5,773	$3,164	$4,458	$38,081
Ending balance:							
Individually evaluated for impairment	$1,340	$—	$1,736	$1,514	$596	$198	$5,384
Collectively evaluated for impairment	$2,100	$2,274	$16,800	$4,241	$2,559	$4,221	$32,195
Loans acquired and accounted for under ASC 310-30	$—	$8	$428	$18	$9	$39	$502
Loans							
Individually evaluated for impairment	$11,284	$10,203	$28,899	$7,791	$5,126	$1,256	$64,559
Collectively evaluated for							

impairment	$289,844	$343,022	$ 843,395	$ 402,761	$ 387,202	$412,822	$2,679,046
Loans acquired and accounted for under ASC 310-30	$248,701	$54,594	$ 106,877	$ 20,084	$ 18,251	$49,459	$497,966

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:

	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 (benefit) 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

18

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, 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							
Individually evaluated for impairment	$2,501	$—	$ 90	$ 473	$ 4,162	$218	$7,444
Collectively evaluated for impairment	$3,734	$2,678	$ 16,845	$ 3,991	$ 2,287	$3,131	$32,666
Loans acquired and accounted for under ASC 310-30	$—	$—	$ 4	$ —	$ 2	$—	$6
Loans							
Individually evaluated for impairment	$13,055	$10,983	$ 31,591	$ 12,628	$ 8,755	$1,389	$78,401
Collectively evaluated for impairment	$297,057	$314,616	$ 791,329	$ 229,232	$ 306,514	$273,871	$2,212,619
Loans acquired and accounted for under ASC 310-30	$206,964	$35,095	$ 84,591	$ 6,989	$ 4,883	$47,642	$386,164

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

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include not only nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties.

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

	September 30, 2014		
	Recorded Balance	Unpaid Principal Balance (In Thousands)	Specific Allowance
One- to four-family residential construction	$—	$—	$—
Subdivision construction	2,304	4,716	373
Land development	7,791	8,224	1,514
Commercial construction	—	—	—
Owner occupied one- to four-family residential	4,366	5,064	517
Non-owner occupied one- to four-family residential	4,614	4,837	450
Commercial real estate	28,899	30,210	1,736
Other residential	10,203	10,203	—
Commercial business	2,150	2,173	596
Industrial revenue bonds	2,976	4,288	—
Consumer auto	175	227	26
Consumer other	635	764	95
Home equity lines of credit	446	473	77
Total	$64,559	$71,179	$5,384

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average Investment in Impaired Loans	Interest Income Recognized (In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized
One- to four-family residential construction	$121	$—	$59	$—
Subdivision construction	2,207	8	2,549	38
Land development	7,650	70	10,403	213
Commercial construction	—	—	—	—
Owner occupied one- to four-family residential	4,665	56	5,100	168
Non-owner occupied one- to four-family residential	4,550	53	4,137	163
Commercial real estate	29,531	298	30,204	988
Other residential	10,304	86	10,665	296
Commercial business	2,163	31	2,657	99
Industrial revenue bonds	3,362	192	2,998	192
Consumer auto	216	4	182	11
Consumer other	678	15	690	57
Home equity lines of credit	415	6	461	20

Total	$65,862	$819	$70,105	$2,245

20

	At or for the Year Ended December 31, 2013				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance (In Thousands)	Average Investment in Impaired Loans	Interest Income Recognized
One- to four-family residential construction	$—	$—	$—	$36	$—
Subdivision construction	3,502	3,531	1,659	3,315	163
Land development	12,628	13,042	473	13,389	560
Commercial construction	—	—	—	—	—
Owner occupied one- to four-family residential	5,802	6,117	593	5,101	251
Non-owner occupied one- to four-family residential	3,751	4,003	249	4,797	195
Commercial real estate	31,591	34,032	90	42,242	1,632
Other residential	10,983	10,983	—	13,837	434
Commercial business	6,057	6,077	4,162	6,821	179
Industrial revenue bonds	2,698	2,778	—	2,700	27
Consumer auto	216	231	32	145	16
Consumer other	604	700	91	630	63
Home equity lines of credit	569	706	95	391	38
Total	$78,401	$82,200	$7,444	$93,404	$3,558

	September 30, 2013		
	Recorded Balance	Unpaid Principal Balance (In Thousands)	Specific Allowance
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

21

	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

At September 30, 2014, $25.1 million of impaired loans had specific valuation allowances totaling $5.4 million. At December 31, 2013, $18.0 million of impaired loans had specific valuation allowances totaling $7.4 million.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. Troubled debt restructurings are loans that are modified by granting concessions to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The types of concessions made are factored into the estimation of the allowance for loan losses for troubled debt restructurings primarily using a discounted cash flows or collateral adequacy approach.

The following tables present newly restructured loans during the three and nine months ended September 30, 2014 by type of modification:

	Three Months Ended September 30, 2014			
	Interest Only	Term	Combination	Total Modification
	(In Thousands)			
Mortgage loans on real estate:				
One -to four- family residential	$308	$—	$—	$308

One -to four- family residential construction	—	—	223	223
Commercial business	—	243	—	243
Consumer	—	6	—	6
	$308	$249	$223	$780

	Nine Months Ended September 30, 2014			
	Interest Only	Term	Combination	Total Modification
	(In Thousands)			
Mortgage loans on real estate:				
Subdivision construction	$—	$250	$—	$250
One -to four- family residential construction	—	—	223	223
One -to four- family residential	308	386	—	694
Commercial real estate	506	1,929	—	2,435
Commercial business	—	1,881	—	1,881
Industrial revenue bonds	—	1,150	—	1,150
Consumer	—	59	—	59
	$814	$5,655	$223	$6,692

At September 30, 2014, the Company had $52.1 million of loans that were modified in troubled debt restructurings and impaired, as follows: $8.6 million of construction and land development loans, $15.6 million of single family and multi-family residential mortgage loans, $23.9 million of commercial real estate loans, $3.7 million of commercial business loans and $250,000 of consumer loans. Of the total troubled debt restructurings at September 30, 2014, $47.4 million were accruing interest and $19.8 million were classified as substandard using the Company’s internal grading system, which is described below. The Company had no troubled debt restructurings which were modified in the previous 12 months and subsequently defaulted during the nine months ended September 30, 2014. When loans modified as troubled debt restructuring have subsequent payment defaults, the defaults are factored into the determination of the allowance for loan losses to ensure specific valuation allowances reflect amounts considered uncollectible. At December 31, 2013, the Company had $10.9 million of construction and land development loans, $16.6 million of single family and multi-family residential mortgage loans, $24.8 million of commercial real estate loans, $1.5 million of commercial business loans and $310,000 of consumer loans that were modified in troubled debt restructurings and impaired. Of the troubled debt restructurings totaling $54.1 million at December 31, 2013, $49.6 million were accruing interest and $22.1 million were classified as substandard using the Company’s internal grading system.

During the three months ended September 30, 2014, loans designated as troubled debt restructurings totaling $1.4 million met the criteria for placement back on accrual status. The $1.4 million was made up of $1.4 million of commercial real estate loans and $6,000 of consumer loans. During the nine months ended September 30, 2014, loans designated as troubled debt restructurings totaling $2.1 million met the criteria for placement back on accrual status. The $2.1 million was made up of $1.5 million of commercial real estate loans, $591,000 of residential mortgage loans and $6,000 of consumer loans.

The Company reviews the credit quality of its loan portfolio using an internal grading system that classifies loans as “Satisfactory,” “Watch,” “Special Mention,” “Substandard” and “Doubtful.” Substandard loans are characterized by the distin possibility that the Bank will sustain some loss if certain deficiencies are not corrected. Doubtful loans are those having all the weaknesses inherent to those classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Special mention loans possess potential weaknesses that deserve management’s close attention but do not expose the Bank to a degree of risk that warrants substandard classification. Loans classified as watch are being monitored because of indications of potential weaknesses or deficiencies that may require future classification as special mention or substandard. Loans not meeting any of the criteria previously described are considered satisfactory. The FDIC-covered loans are evaluated using this internal grading system. These loans are accounted for in pools and are currently substantially covered through loss sharing agreements with the FDIC. Minimal adverse classification in the loan pools was identified as of September 30, 2014 and December 31, 2013, respectively. The acquired non-covered loans are also evaluated using this internal grading system. These loans are accounted for in pools and minimal adverse classification in the loan pools was identified as of September 30, 2014. See Note 8 for further discussion of the acquired loan pools and loss sharing agreements. The loan grading system is presented by loan class below:

	September 30, 2014					
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	Total
	(In Thousands)					
One- to four-family residential construction	$43,163	$—	$—	$ 223	$—	$43,386
Subdivision construction	33,310	21	—	2,013	—	35,344
Land development	37,514	5,000	—	6,067	—	48,581
Commercial construction	361,971	—	—	—	—	361,971
Owner occupied one- to four-family residential	76,166	611	—	2,207	—	78,984
Non-owner occupied one- to four-family residential	139,070	350	—	3,994	—	143,414
Commercial real estate	808,064	51,967	—	12,263	—	872,294
Other residential	341,224	10,045	—	1,956	—	353,225
Commercial business	347,691	446	—	1,250	—	349,387
Industrial revenue bonds	41,114	622	—	1,205	—	42,941
Consumer auto	274,079	—	—	171	—	274,250
Consumer other	78,149	4	—	523	—	78,676
Home equity lines of credit	60,707	—	—	445	—	61,152
FDIC-supported loans, net of discounts (TeamBank)	15,275	—	—	19	—	15,294
Acquired non--covered loans, net of discounts (TeamBank)	28,333	—	—	8	—	28,341
FDIC-supported loans, net of discounts (Vantus Bank)	43,252	—	—	401	—	43,653
FDIC-supported loans, net of discounts (Sun Security Bank)	53,859	—	—	535	—	54,394
FDIC-supported loans, net of discounts (InterBank)	202,904	—	—	883	—	203,787
Acquired non-covered loans, net of discounts (Valley Bank)	152,497	—	—	—	—	152,497
Total	$3,138,342	$69,066	$—	$ 34,163	$—	$3,241,571

	December 31, 2013					
	Satisfactory	Watch	Special Mention	Substandard	Doubtful	Total
	(In Thousands)					
One- to four-family residential construction	$34,364	$298	$—	$ —	$—	$34,662
Subdivision construction	36,524	706	—	3,179	—	40,409
Land development	45,606	1,148	—	11,087	—	57,841
Commercial construction	184,019	—	—	—	—	184,019
Owner occupied one- to four-family residential	84,931	503	—	3,699	—	89,133
Non-owner occupied one- to four-family residential	137,003	6,718	—	2,187	—	145,908

Commercial real estate	727,668	37,937	—	15,085	—	780,690
Other residential	311,320	12,323	—	1,956	—	325,599
Commercial business	307,540	1,803	—	3,528	2,398	315,269
Industrial revenue bonds	39,532	675	—	2,023	—	42,230
Consumer auto	134,516	—	—	201	—	134,717
Consumer other	81,769	6	—	485	—	82,260
Home equity lines of credit	57,713	—	—	570	—	58,283
FDIC-supported loans, net of discounts (TeamBank)	49,702	—	—	160	—	49,862
FDIC-supported loans, net of discounts (Vantus Bank)	57,290	—	—	630	—	57,920
FDIC-supported loans, net of discounts (Sun Security Bank)	63,360	—	—	1,483	—	64,843
FDIC-supported loans, net of discounts (InterBank)	213,539	—	—	—	—	213,539
Total	$ 2,566,396	$ 62,117	$—	$ 46,273	$ 2,398	$ 2,677,184

24

NOTE 8: ACQUIRED LOANS, LOSS SHARING AGREEMENTS AND FDIC INDEMNIFICATION ASSETS

On March 20, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits (excluding brokered deposits) and acquire certain assets of TeamBank, N.A., a full service commercial bank headquartered in Paola, Kansas.

The loans, commitments and foreclosed assets purchased in the TeamBank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shares in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $115.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding $115.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans, which five-year period ended March 31, 2014. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A discount was recorded in conjunction with the fair value of the acquired loans and the amount accreted to yield during the three and nine months ended September 30, 2014 was $-0-. The amount accreted to yield during the three and nine months ended September 30, 2013 was $0 and $134,000, respectively.

On September 4, 2009, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Vantus Bank, a full service thrift headquartered in Sioux City, Iowa.

The loans, commitments and foreclosed assets purchased in the Vantus Bank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the Bank shares in the losses on assets covered under the agreement (referred to as covered assets). On losses up to $102.0 million, the FDIC agreed to reimburse the Bank for 80% of the losses. On losses exceeding $102.0 million, the FDIC agreed to reimburse the Bank for 95% of the losses. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by the Bank. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans, which five year period ended on September 30, 2014. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A discount was recorded in conjunction with the fair value of the acquired loans and the amount accreted to yield during the three and nine months ended September 30, 2014 was $-0-. The amount accreted to yield during the three and nine months ended September 30, 2013 was $19,000 and $99,000, respectively.

On October 7, 2011, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Sun Security Bank, a full service bank headquartered in Ellington, Missouri.

The loans and foreclosed assets purchased in the Sun Security Bank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC agreed to cover 80% of the losses on the loans (excluding approximately $4 million of consumer loans) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A discount was recorded in conjunction with the fair value of the acquired loans and the amount accreted to yield during the three and nine months ended September 30, 2014 was $0 and $105,000, respectively. The amount accreted to yield during the three and nine months ended September 30, 2013 was $210,000 and $827,000, respectively.

On April 27, 2012, Great Southern Bank entered into a purchase and assumption agreement with loss share with the FDIC to assume all of the deposits and acquire certain assets of Inter Savings Bank, FSB (“InterBank”), a full service bank headquartered in Maple Grove, Minnesota.

The loans and foreclosed assets purchased in the InterBank transaction are covered by a loss sharing agreement between the FDIC and Great Southern Bank. Under the loss sharing agreement, the FDIC agreed to cover 80% of the losses on the loans (excluding approximately $60,000 of consumer loans) and foreclosed assets purchased subject to certain limitations. Realized losses covered by the loss sharing agreement include loan contractual balances (and related unfunded commitments that were acquired), accrued interest on loans for up to 90 days, the book value of foreclosed real estate acquired, and certain direct costs, less cash or other consideration received by Great Southern. This agreement extends for ten years for 1-4 family real estate loans and for five years for other loans. The value of this loss sharing agreement was considered in determining fair values of loans and foreclosed assets acquired. The loss sharing agreement is subject to the Bank following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their preliminary estimated fair value on the acquisition date. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during the three and nine months ended September 30, 2014 was $133,000 and $417,000, respectively. The amount amortized to yield during the three and nine months ended September 30, 2013 was $155,000 and $485,000, respectively.

On June 20, 2014, Great Southern Bank entered into a purchase and assumption agreement with the FDIC to purchase a substantial portion of the loans and investment securities, as well as certain other assets, and assume all of the deposits, as well as certain other liabilities, of Valley Bank (“Valley”), a full-service bank headquartered in Moline, Illinois, with significant operations in Iowa. This transaction did not include a loss sharing agreement.

Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. A premium was recorded in conjunction with the fair value of the acquired loans and the amount amortized to yield during each of the three and nine months ended September 30, 2014 was $263,000.

Fair Value and Expected Cash Flows. At the time of these acquisitions, the Company determined the fair value of the loan portfolios based on several assumptions. Factors considered in the valuations were projected cash flows for the loans, type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, current discount rates and whether or not the loan was amortizing. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. Management also estimated the amount of credit losses that were expected to be realized for the loan portfolios. The discounted cash flow approach was used to value each pool of loans. For non-performing loans, fair value was estimated by calculating the present value of the recoverable cash flows using a discount rate based on comparable corporate bond rates. This valuation of the acquired loans is a significant component leading to the valuation of the loss sharing assets recorded.

The amount of the estimated cash flows expected to be received from the acquired loan pools in excess of the fair values recorded for the loan pools is referred to as the accretable yield. The accretable yield is recognized as interest income over the estimated lives of the loans. The Company continues to evaluate the fair value of the loans including cash flows expected to be collected. Increases in the Company's cash flow expectations are recognized as increases to the accretable yield while decreases are recognized as impairments through the allowance for loan losses. During the three and nine months ended September 30, 2014, increases in expected cash flows related to the acquired loan portfolios resulted in adjustments of $5.1 million and $25.0 million, respectively, to the accretable yield to be spread over the estimated remaining lives of the loans on a level-yield basis. During the three and nine months ended September 30, 2013, similar such adjustments totaling $11.9 million and $26.9 million, respectively, were made to the accretable yield. The current year increases in expected cash flows also reduced the amount of expected reimbursements under the loss sharing agreements. During the three and nine months ended September 30, 2014, this resulted in corresponding adjustments of $4.1 million and $20.0 million, respectively, to the indemnification assets to be amortized on a level-yield basis over the remainder of the loss sharing agreements or the remaining expected lives of the loan pools, whichever is shorter. During the three and nine months ended September 30, 2013, corresponding adjustments of $9.4 million and $21.3 million, respectively, were made to the indemnification assets.

Because these adjustments will be recognized over the remaining lives of the loan pools and the remainder of the loss sharing agreements, respectively, they will impact future periods as well. The remaining accretable yield adjustment that will affect interest income is $29.6 million and the remaining adjustment to the indemnification assets, including the effects of the clawback liability related to Interbank, that will affect non-interest income (expense) is $(26.0) million. Of the remaining adjustments, we expect to recognize $7.2 million of interest income and $(6.0) million of non-interest income (expense) in the remainder of 2014. Additional adjustments may be recorded in future periods from the FDIC-assisted acquisitions, as the Company continues to estimate expected cash flows from the acquired loan pools.

The impact of adjustments on the Company's financial results is shown below:

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	(In Thousands, Except Per Share Data and Basis Points Data)			
Impact on net interest income/ net interest margin (in basis points)	$ 8,848	98 bps	$ 8,412	101 bps
Non-interest income	(7,438)		(7,310)	
Net impact to pre-tax income	$ 1,410		$ 1,102	
Net impact net of taxes	$ 917		$ 716	
Impact to diluted earnings per common share	$ 0.07		$ 0.05	

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	(In Thousands, Except Per Share Data and Basis Points Data)			
Impact on net interest income/ net interest margin (in basis points)	$ 25,836	101 bps	$ 26,508	103 bps
Non-interest income	(21,915)		(22,529)	
Net impact to pre-tax income	$ 3,921		$ 3,979	
Net impact net of taxes	$ 2,549		$ 2,586	
Impact to diluted earnings per common share	$ 0.19		$ 0.19	

The loss sharing asset is measured separately from the loan portfolio because it is not contractually embedded in the loans and is not transferable with the loans should the Bank choose to dispose of them. Fair value was estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool (as discussed above) and the loss sharing percentages outlined in the Purchase and Assumption Agreement with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The loss sharing asset is also separately measured from the related foreclosed real estate.

The loss sharing agreement on the InterBank transaction includes a clawback provision whereby if credit loss performance is better than certain pre-established thresholds, then a portion of the monetary benefit is shared with the

FDIC. The pre-established threshold for credit losses is $115.7 million for this transaction. The monetary benefit required to be paid to the FDIC under the clawback provision, if any, will occur shortly after the termination of the loss sharing agreement, which in the case of InterBank is 10 years from the acquisition date.

At September 30, 2014 and December 31, 2013, the Bank's internal estimate of credit performance was expected to be better than the threshold set by the FDIC in the loss sharing agreement. Therefore, a separate clawback liability totaling $5.8 million and $3.7 million was recorded as of September 30, 2014 and December 31, 2013, respectively.

As changes in the fair values of the loans and foreclosed assets are determined due to changes in expected cash flows, changes in the amount of the clawback liability will occur.

TeamBank Loans, Foreclosed Assets and Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the TeamBank transaction at September 30, 2014 and December 31, 2013. Gross loan balances (due from the borrower) were reduced approximately $389.9 million since the transaction date because of $256.1 million of repayments from borrowers, $61.6 million in transfers to foreclosed assets and $72.2 million in charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	September 30, 2014	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$46,222	$169
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(2,061)	—
Original estimated fair value of assets, net of activity since acquisition date	(43,635)	(156)
Expected loss remaining	526	13
Assumed loss sharing recovery percentage	83%	77%
Estimated loss sharing value	438	10
Indemnification asset to be amortized resulting from change in expected losses	327	—
Accretable discount on FDIC indemnification asset	—	—
FDIC indemnification asset	$765	$10

	December 31, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$53,553	$664
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(2,882)	—
Original estimated fair value of assets, net of activity since acquisition date	(49,862)	(647)
Expected loss remaining	809	17
Assumed loss sharing recovery percentage	82%	76%
Estimated loss sharing value	665	13
Indemnification asset to be amortized resulting from		

change in expected losses	593	—
Accretable discount on FDIC indemnification asset	(10)	—
FDIC indemnification asset	$1,248	$13

Vantus Bank Loans, Foreclosed Assets and Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the Vantus Bank transaction at September 30, 2014 and December 31, 2013. Gross loan balances (due from the borrower) were reduced approximately $286.7 million since the transaction date because of $240.6 million of repayments from borrowers, $16.5 million in transfers to foreclosed assets and $29.6 million in charge-offs to customer loan balances. Based upon the collectability analyses performed during the acquisition, we expected certain levels of foreclosures and charge-offs and actual results have been better than our expectations. As a result, cash flows expected to be received from the acquired loan pools have increased, resulting in adjustments that were made to the related accretable yield as described above.

	September 30, 2014	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$44,877	$1,205
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(456)	—
Original estimated fair value of assets, net of activity since acquisition date	(43,653)	(1,015)
Expected loss remaining	768	190
Assumed loss sharing recovery percentage	74%	—%
Estimated loss sharing value(1)	566	—
Indemnification asset to be amortized resulting from change in expected losses	278	—
Accretable discount on FDIC indemnification asset	—	—
FDIC indemnification asset	$844	$—

(1) Includes $153,000 impairment of indemnification asset for foreclosed assets. Resolution of certain items related to commercial foreclosed assets did not occur prior to the expiration of the non-single-family loss sharing agreement for Vantus Bank on September 30, 2014.

	December 31, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$60,011	$1,986
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,202)	—
Original estimated fair value of assets, net of activity since acquisition date	(57,920)	(1,092)
Expected loss remaining	889	894
Assumed loss sharing recovery percentage		