

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

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

FORM 10-Q

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 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 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 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: 13,727,671 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 |

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| | | |
|---|-------------|-------------|
| \$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 | | |

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 |

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| | | |
|---|----------|---------|
| 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 |

| | 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

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

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|---|
| | 2014 | 2013 |
| | | Retrospectively Adjusted – Note 3 |
| | | (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 |

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| | | |
|---|----------|----------|
| 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

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 | | |

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 |

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

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| | 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 |

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(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 | % |
|-----------------------------------|-------|-------|-----|-------|------|---|

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:

| Description of Securities | Less than 12 Months | | September 30, 2014 12 Months or More | | Total | |
|---------------------------|---------------------|----------------------|---|----------------------|---------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In Thousands) | | | | | |

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| | | | | | | |
|----------------------------------|----------|----------|----------|------------|-----------|------------|
| 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) |

| Description of Securities | Less than 12 Months | | December 31, 2013 12 Months or More | | Total | | |
|----------------------------------|---------------------|------------|--|------------|-----------|------------|--|
| | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized | |
| | Value | Losses | Value | Losses | Value | 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.

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 2013 (In Thousands) | | 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 2013 (In Thousands) | | |
| Unrealized gains (losses) on available-for-sale securities | \$ 963 | \$ 241 | Net realized gains on available-for-sale securities (Total reclassified amount before tax) |

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

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 | % |

Classes of loans by aging were as follows:

September 30, 2014

| | 30-59 | 60-89 | Past Due | | Total Loans Receivable | Total Loans > 90 Days Past Due and Still Accruing | |
|--|----------|----------|----------|------------|------------------------------|---|-----|
| | Days | Days | 90 Days | Total Past | | | |
| | Past Due | Past Due | or More | Due | Current | | |
| (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 | | | | | | | |

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| | | | | | | | |
|--|--------|---------|----------|----------|-------------|-------------|-------|
| (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 |

December 31, 2013

| | 30-59 Days | 60-89 Days | Past Due | | Current | Total Loans Receivable | Total Loans > 90 Days Past Due and Still Accruing |
|--|----------------|---------------|--------------------|-------------------|-------------|------------------------------|---|
| | | | 90 Days or More | Total Past Due | | | |
| | Past Due | Past Due | | | | | |
| | (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 |

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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 | | | | | | | |
| 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 | | | | | | | |

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| | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| 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 | Commercial 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 | | | |