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

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

FORM 10-Q

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

For the Quarterly Period ended September 30, 2013

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes/X/ No / /

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

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

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

Yes / / No /X/

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

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

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

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

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

See Notes to Consolidated Financial Statements

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

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

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

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

See Notes to Consolidated Financial Statements

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

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

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

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

See Notes to Consolidated Financial Statements

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

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

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

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

See Notes to Consolidated Financial Statements

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

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

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

See Notes to Consolidated Financial Statements

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

NOTE 1: BASIS OF PRESENTATION

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

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

NOTE 2: NATURE OF OPERATIONS AND OPERATING SEGMENTS

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

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

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

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE 4: STOCKHOLDERS' EQUITY

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

NOTE 5: EARNINGS PER SHARE

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

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

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

NOTE 6: INVESTMENT SECURITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 7: LOANS AND ALLOWANCE FOR LOAN LOSSES

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

Classes of loans by aging were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2013		
	Recorded Balance	Unpaid Principal Balance (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

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

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

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

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

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
	(In Thousands)			
One- to four-family residential construction	$612	$6	$738	$17
Subdivision construction	3,188	153	10,225	153
Land development	15,826	19	12,286	408
Commercial construction	1,020	—	510	—
Owner occupied one- to four-family residential	4,970	93	5,094	208
Non-owner occupied one- to four-family residential	10,389	—	10,854	289
Commercial real estate	42,607	754	44,223	1,742
Other residential	17,718	223	17,408	686
Commercial business	3,290	35	3,927	119
Industrial revenue bonds	3,267	—	3,117	—
Consumer auto	154	4	163	12
Consumer other	679	20	662	60
Home equity lines of credit	134	6	136	9
Total	$103,854	$1,313	$109,343	$3,703

At September 30, 2013, $27.4 million of impaired loans had specific valuation allowances totaling $8.1 million. At December 31, 2012, $43.4 million of impaired loans had specific valuation allowances totaling $11.4 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 table presents newly restructured loans during the three and nine months ended September 30, 2013 by type of modification:

	Three Months Ended September 30, 2013			
	Interest Only	Term	Combination	Total Modification
	(In Thousands)			
Mortgage loans on real estate:				
Subdivision construction	$—	$251	$568	$819
Land development	—	2,016	—	2,016
Commercial real estate	57	1,818	—	1,875

Consumer	—	14	—	14
	$57	$4,099	$568	$4,724

	Nine Months Ended September 30, 2013			
	Interest Only	Term	Combination	Total Modification
	(In Thousands)			
Mortgage loans on real estate:				
One- to four-family residential construction	$—	$286	$—	$286
Subdivision construction	—	2,067	568	2,635
Land development	—	2,078	—	2,078
Residential-one-to four-family	—	1,423	—	1,423
Other residential	—	1,874	—	1,874
Commercial real estate	57	1,818	—	1,875
Consumer	—	183	—	183
	$57	$9,729	$568	$10,354

At September 30, 2013, the Company had $48.1 million of loans that were modified in troubled debt restructurings and impaired, as follows: $7.3 million of construction and land development loans, $15.3 million of single family and multi-family residential mortgage loans, $24.4 million of commercial real estate loans, $827,000 of commercial business loans and $289,000 of consumer loans. Of the total troubled debt restructurings at September 30, 2013, $45.6 million were accruing interest and $12.6 million were classified as substandard using the Company's internal grading system, which is described below. The Company had troubled debt restructurings which were modified in the previous 12 months and subsequently defaulted during the nine months ended September 30, 2013 of approximately $1.4 million, including three commercial real estate loans totaling $912,000, three non-owner occupied residential mortgage loan totaling $260,000, two owner occupied residential mortgage loan totaling $187,000, three consumer loans totaling $41,000, and one commercial business loan totaling $13,000. 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, 2012, the Company had $2.8 million of construction loans, $15.0 million of single family and multi-family residential mortgage loans, $26.9 million of commercial real estate loans, $1.9 million of commercial business loans and $167,000 of consumer loans that were modified in troubled debt restructurings and impaired. Of the total troubled debt restructurings at December 31, 2012, $38.1 million were accruing interest and $14.6 million were classified as substandard and $1.0 million were classified as doubtful using the Company's internal grading system.

During the three months ended September 30, 2013, there were no borrowers with loans designated as troubled debt restructurings that met the criteria for placement back on accrual status. This criteria is a minimum of six months of payment performance under existing or modified terms.

During the nine months ended September 30, 2013, borrowers with loans designated as troubled debt restructurings totaling $2.2 million met the criteria for placement back on accrual status. The $2.2 million was made up of $2.1 million of residential mortgage loans, $92,000 of commercial real estate loans and $4,000 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, 2013 and December 31, 2012, respectively. 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, 2013					
	Satisfactory	Watch	Special Mention	Substandard (In Thousands)	Doubtful	Total
One- to four-family residential construction	$33,390	$64	$—	$—	$—	$33,454
Subdivision construction	29,840	1,230	—	3,194	—	34,264
Land development	47,007	1,464	—	13,896	—	62,367
Commercial construction	174,691	—	—	—	—	174,691
Owner occupied one- to four-family residential	82,953	497	—	2,940	—	86,390
Non-owner occupied one- to four-family residential	135,512	5,954	—	2,635	—	144,101
Commercial real estate	698,740	37,242	—	21,696	—	757,678
Other residential	237,645	12,790	—	2,173	—	252,608
Commercial business	272,966	868	—	6,041	—	279,874
Industrial revenue bonds	38,319	675	—	2,023	—	41,017
Consumer auto	122,158	—	—	171	—	122,329
Consumer other	83,154	6	—	478	—	83,638
Home equity lines of credit	54,589	—	1,885	410	—	56,885
FDIC-supported loans, net of Discounts (TeamBank)	55,626	—	—	199	—	55,825
FDIC-supported loans, net of discounts (Vantus Bank)	68,186	—	—	304	—	68,490
FDIC-supported loans, net of discounts (Sun Security Bank)	70,020	—	—	—	—	70,020
FDIC-supported loans, net of discounts (InterBank)	218,962	—	—	—	—	218,962
Total	$2,423,758	$60,790	$1,885	$56,160	$—	$2,542,593

	December 31, 2012					
	Satisfactory	Watch	Special Mention	Substandard (In Thousands)	Doubtful	Total
One- to four-family residential construction	$28,662	$—	$—	$409	$—	$29,071
Subdivision construction	31,156	2,993	—	1,656	—	35,805
Land development	47,388	3,887	—	11,284	—	62,559
Commercial construction	150,515	—	—	—	—	150,515
Owner occupied one- to four-family residential	79,411	792	—	3,656	—	83,859
Non-owner occupied one- to four-family residential	132,073	7,884	—	5,501	—	145,458
Commercial real estate	619,387	42,753	—	30,237	—	692,377

Other residential	252,238	6,793	—	8,487	—	267,518
Commercial business	253,165	4,286	—	6,180	1,000	264,631
Industrial revenue bonds	40,977	675	—	2,110	—	43,762
Consumer auto	82,467	—	—	143	—	82,610
Consumer other	83,250	—	—	565	—	83,815
Home equity lines of credit	52,076	—	1,913	236	—	54,225
FDIC-supported loans, net of Discounts (TeamBank)	77,568	—	—	47	—	77,615
FDIC-supported loans, net of discounts (Vantus Bank)	95,281	—	—	202	—	95,483
FDIC-supported loans, net of discounts (Sun Security Bank)	91,519	—	—	—	—	91,519
FDIC-supported loans, net of discounts (InterBank)	259,210	—	—	22	—	259,232
Total	$2,376,343	$70,063	$1,913	$70,735	$1,000	$2,520,054

NOTE 8: 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. 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, 2013 was $0 and $134,000, respectively. The amount accreted to yield during the three and nine months ended September 30, 2012 was $267,000 and $1.0 million, 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. 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, 2013 was $19,000 and $99,000, respectively. The amount accreted to yield during the three and nine months ended September 30, 2012 was $76,000 and $338,000, 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, 2013 was $210,000 and $827,000, respectively. The amount accreted to yield during the three and nine months ended September 30, 2012 was $500,000 and $1.2 million, 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, 2013 was $155,000 and $485,000, respectively. The amount amortized to yield during the three and nine months ended September 30, 2012 was $(68,000) and $126,000, respectively.

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, 2013, increases in expected cash flows related to the acquired loan portfolios resulted in adjustments of $11.9 million and $26.9 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, 2012, similar such adjustments totaling $8.8 million and $18.8 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, 2013, this resulted in a corresponding adjustment of $9.4 million and $21.3 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, 2012, corresponding adjustments of $7.0 million and $15.0 million, respectively, were made to the indemnification assets. The impact to net interest income and net interest margin was greater in the quarter ended September 30, 2013 compared to the quarter ended June 30, 2013 due to additional estimated cash flows, primarily related to the Sun Security Bank and InterBank loan portfolios.

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 $25.0 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 $(20.7) million. Of the remaining adjustments, we expect to recognize $5.7 million of interest income and $(5.0) million of non-interest income (expense) in the remainder of 2013. 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, 2013		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)	$ 8,412	101 bps	$ 26,508	103 bps
Non-interest income	(7,074)		(22,037)	
Net impact to pre-tax income	$ 1,338		$ 4,471	
Net impact net of taxes	$ 870		$ 2,906	
Impact to diluted earnings per common share	$ 0.06		$ 0.21	

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	(In Thousands, Except Per Share Data and Basis Points Data)			
Impact on net interest income/ net interest margin (in basis points)	$ 9,956	109 bps	$ 24,136	90 bps
Non-interest income	(8,169)		(19,319)	
Net impact to pre-tax income	$ 1,787		$ 4,817	
Net impact net of taxes	$ 1,162		$ 3,131	
Impact to diluted earnings per common share	$ 0.09		$ 0.23	

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, 2013, the Bank's internal estimate of credit performance is expected to be better than the threshold set by the FDIC in the loss sharing agreement. Therefore, a separate clawback liability totaling $2.6 million was recorded as of September 30, 2013. 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 FDIC Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the TeamBank transaction at September 30, 2013 and December 31, 2012. Gross loan balances (due from the borrower) were reduced approximately $376.2 million since the transaction date because of $242.8 million of repayments from borrowers, $61.4 million in transfers to foreclosed assets and $72.0 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, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$60,010	$2,356
Non-credit premium/(discount), net of activity since acquisition date	—	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(3,378)	—
Original estimated fair value of assets, net of activity since acquisition date	(55,825)	(2,066)
Expected loss remaining	807	290
Assumed loss sharing recovery percentage	82%	80%
Estimated loss sharing value	663	232
Indemnification asset to be amortized resulting from change in expected losses	1,455	—
Accretable discount on FDIC indemnification asset	(21)	—
FDIC indemnification asset	$2,097	$232

	December 31, 2012	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$86,657	$9,056
Non-credit premium/(discount), net of activity since acquisition date	(134)	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(5,120)	—
Original estimated fair value of assets, net of activity since acquisition date	(77,615)	(7,669)
Expected loss remaining	3,788	1,387
Assumed loss sharing recovery percentage	81%	82%
Estimated loss sharing value	3,051	1,141
Indemnification asset to be amortized resulting from change in expected losses	4,036	—

Accretable discount on FDIC indemnification asset	(332)	—
FDIC indemnification asset	$6,755	$1,141

Vantus Bank Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the Vantus Bank transaction at September 30, 2013 and December 31, 2012. Gross loan balances (due from the borrower) were reduced approximately $260.4 million since the transaction date because of $215.2 million of repayments from borrowers, $16.3 million in transfers to foreclosed assets and $28.9 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, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$71,155	$3,570
Non-credit premium/(discount), net of activity since acquisition date	(5)	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(1,779)	—
Original estimated fair value of assets, net of activity since acquisition date	(68,490)	(2,353)
Expected loss remaining	881	1,217
Assumed loss sharing recovery percentage	75%	80%
Estimated loss sharing value	658	974
Indemnification asset to be amortized resulting from change in expected losses	1,399	—
Accretable discount on FDIC indemnification asset	(48)	—
FDIC indemnification asset	$2,009	$974

	December 31, 2012	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$103,910	$4,383
Non-credit premium/(discount), net of activity since acquisition date	(104)	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(5,429)	—
Original estimated fair value of assets, net of activity since acquisition date	(95,483)	(3,214)
Expected loss remaining	2,894	1,169
Assumed loss sharing recovery percentage	78%	80%
Estimated loss sharing value	2,270	935
Indemnification asset to be amortized resulting from change in expected losses	4,343	—

Accretable discount on FDIC indemnification asset	(240)	—
FDIC indemnification asset	$6,373	$935

Sun Security Bank Indemnification Asset. The following tables present the balances of the FDIC indemnification asset related to the Sun Security Bank transaction at September 30, 2013 and December 31, 2012. Gross loan balances (due from the borrower) were reduced approximately $147.7 million since the transaction date because of $92.2 million of repayments by the borrower, $25.8 million in transfers to foreclosed assets and $29.7 million of 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, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$86,700	$7,143
Non-credit premium/(discount), net of activity since acquisition date	(252)	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(4,688)	—
Original estimated fair value of assets, net of activity since acquisition date	(70,020)	(4,929)
Expected loss remaining	11,740	2,214
Assumed loss sharing recovery percentage	73%	80%
Estimated loss sharing value	8,555	1,771
Indemnification asset to be amortized resulting from change in expected losses	3,718	—
Accretable discount on FDIC indemnification asset	(832)	(93)
FDIC indemnification asset	$11,441	$1,678

	December 31, 2012	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$126,933	$10,980
Non-credit premium/(discount), net of activity since acquisition date	(1,079)	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(4,182)	—
Original estimated fair value of assets, net of activity since acquisition date	(91,519)	(6,227)
Expected loss remaining	30,153	4,753
Assumed loss sharing recovery percentage	76%	80%
Estimated loss sharing value	23,017	3,785
Indemnification asset to be amortized resulting from change in expected losses	3,345	—

Accretable discount on FDIC indemnification asset	(2,867)	(561)
FDIC indemnification asset	$23,495	$3,224

InterBank Indemnification Asset. The following table presents the balances of the FDIC indemnification asset related to the InterBank transaction at September 30, 2013. Gross loan balances (due from the borrower) were reduced approximately $96.0 million since the transaction date because of $71.5 million of repayments by the borrower, $6.0 million in transfers to foreclosed assets and $18.5 million of 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, 2013	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$297,252	$4,788
Non-credit premium/(discount), net of activity since acquisition date	2,056	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(15,147)	—
Original estimated fair value of assets, net of activity since acquisition date	(218,962)	(4,457)
Expected loss remaining	65,199	331
Assumed loss sharing recovery percentage	82%	80%
Estimated loss sharing value	53,114	265
FDIC loss share clawback	2,000	—
Indemnification asset to be amortized resulting from change in expected losses	12,118	—
Accretable discount on FDIC indemnification asset	(5,341)	(33)
FDIC indemnification asset	$61,891	$232

	December 31, 2012	
	Loans	Foreclosed Assets
	(In Thousands)	
Initial basis for loss sharing determination, net of activity since acquisition date	$356,844	$2,001
Non-credit premium/(discount), net of activity since acquisition date	2,541	—
Reclassification from nonaccretable discount to accretable discount due to change in expected losses (net of accretion to date)	(9,897)	—
Original estimated fair value of assets, net of activity since acquisition date	(259,232)	(1,620)
Expected loss remaining	90,256	381
Assumed loss sharing recovery percentage	81%	80%
Estimated loss sharing value	73,151	304
FDIC loss share clawback	1,000	—

Indemnification asset to be amortized resulting from change in expected losses	7,871	—
Accretable discount on FDIC indemnification asset	(6,893)	(93)
FDIC indemnification asset	$75,129	$211

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Changes in the accretable yield for acquired loan pools were as follows for the three months ended September 30, 2013 and 2012:

	TeamBank	Vantus Bank	Sun Security Bank	InterBank
		(In Thousands)		
Balance, July 1, 2012	$11,403	$17,882	$9,775	$—
Additions	—	—	—	43,227
Accretion	(4,709)	(6,980)	(3,668)	(4,303)
Reclassification from nonaccretable yield(1)	5,863	4,510	2,902	—
Balance, September 30, 2012	$12,557	$15,412	$9,009	$38,924
Balance July 1, 2013	$8,610	$8,647	$10,055	$34,967
Accretion	(1,450)	(1,832)	(4,795)	(7,034)
Reclassification from nonaccretable yield(1)	1,109	(379)	5,293	7,774
Balance, September 30, 2013	$8,269	$6,436	$10,553	$35,707

(1) Represents increases in estimated cash flows expected to be received from the acquired loan pools, primarily due to lower estimated credit losses. The numbers also include changes in expected accretion of the loan pools for TeamBank, Vantus Bank, Sun Security Bank and InterBank for the three months ended September 30, 2013, totaling $340,000, $0, $4.3 million and $7.3 million, respectively, and for the three months ended September 30, 2012, totaling $3.1 million, $4.0 million, $1.8 million and $0, respectively.

Changes in the accretable yield for acquired loan pools were as follows for the nine months ended September 30, 2013 and 2012:

	TeamBank	Vantus Bank	Sun Security Bank	InterBank
		(In Thousands)		
Balance, January 1, 2012	$14,662	$21,967	$12,769	$—
Additions	—	—	—	46,078
Accretion	(13,799)	(17,320)	(10,750)	(7,154)
Reclassification from nonaccretable yield(1)	11,694	10,765	6,990	—
Balance, September 30, 2012	$12,557	$15,412	$9,009	$38,924
Balance January 1, 2013	$12,128	$13,538	$11,259	$42,574
Accretion	(7,050)	(7,492)	(13,021)	(20,423)
Reclassification from nonaccretable yield(1)	3,191	390	12,315	13,556
Balance, September 30, 2013	$8,269	$6,436	$10,553	$35,707

(1)

Represents increases in estimated cash flows expected to be received from the acquired loan pools, primarily due to lower estimated credit losses. The numbers also include changes in expected accretion of the loan pools for TeamBank, Vantus Bank, Sun Security Bank and InterBank for the nine months ended September 30, 2013, totaling $2.5 million, $516,000, $9.0 million and $14.9 million, respectively, and for the nine months ended September 30, 2012, totaling $6.0 million, $7.6 million, $5.2 million and $0, respectively.

NOTE 9: FORECLOSED ASSETS HELD FOR SALE

Major classifications of foreclosed assets were as follows:

	September 30, 2013	December 31, 2012
	(In Thousands)	
One-to four-family construction	$—	$627
Subdivision construction	13,092	17,147
Land development	15,293	14,058
Commercial construction	2,245	6,511
One-to four-family residential	1,070	1,200
Other residential	5,632	7,232
Commercial real estate	3,239	2,738
Commercial business	98	160
Consumer	1,132	471
	41,801	50,144
FDIC-supported foreclosed assets, net of discounts	13,805	18,730
	$55,606	$68,874

Expenses applicable to foreclosed assets included the following:

	Three Months Ended September 30, 2013	2012
	(In Thousands)	
Net loss on sales of foreclosed assets	$27	$320
Valuation write-downs	258	1,292
Operating expenses, net of rental income	783	924
	$1,068	$2,536

	Nine Months Ended September 30, 2013	2012
	(In Thousands)	
Net gain on sales of foreclosed assets	$(255)	$(1,077)
Valuation write-downs	1,313	2,691
Operating expenses, net of rental income	2,420	2,589
	$3,478	$4,203

NOTE 10: DEPOSITS

	September 30, 2013	December 31, 2012
	(In Thousands)	
Time Deposits:		

0.00% - 0.99%	$	679,662	$	666,573
1.00% - 1.99%		278,679		426,589
2.00% - 2.99%		66,170		90,539
3.00% - 3.99%		10,483		13,240
4.00% - 4.99%		2,950		5,190
5.00% and above		1,535		1,816
Total time deposits (0.73% - 1.00%)		1,039,479		1,203,947
Non-interest-bearing demand deposits		540,617		385,778
Interest-bearing demand and savings deposits (0.21% - 0.33%)		1,272,438		1,563,468
Total Deposits	$	2,852,534	$	3,153,193

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NOTE 11: INCOME TAXES

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

	Three Months Ended September 30,	
	2013	2012
	(In Thousands)	
Tax at statutory rate	35.0 %	35.0 %
Nontaxable interest and dividends	(4.3)	(5.2)
Tax credits	(20.8)	(18.4)
State taxes	3.0	0.8
Other	(1.4)	(2.3)
	11.5 %	9.9 %

	Nine Months Ended September 30,	
	2013	2012
	(In Thousands)	
Tax at statutory rate	35.0 %	35.0 %
Nontaxable interest and dividends	(4.3)	(3.1)
Tax credits	(19.1)	(9.3)
State taxes	2.1	0.4
Other	(0.2)	0.1
	13.5 %	22.9 %

NOTE 12: FAIR VALUE MEASUREMENT

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

· Quoted prices in active markets for identical assets or liabilities (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

· Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.

· Significant unobservable inputs (Level 3): Inputs that reflect assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

Financial instruments are broken down as follows by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

Recurring Measurements

		Fair value measurements using		
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In Thousands)			
September 30, 2013				
U.S. government agencies	$17,830	$—	$17,830	$—
Mortgage-backed securities	393,893	—	393,893	—
Small Business Administration loan pools	47,128	—	47,128	—
States and political subdivisions	119,558	—	119,558	—
Equity securities	2,572	—	2,572	—
Mortgage servicing rights	236	—	—	236
Interest rate derivative asset	2,230	—	—	2,230
Interest rate derivative liability	(1,326)	—	—	(1,326)
December 31, 2012				
U.S. government agencies	$30,040	$—	$30,040	$—
Collateralized mortgage obligations	4,507	—	4,507	—
Mortgage-backed securities	596,086	—	596,086	—
Small Business Administration loan pools	51,493	—	51,493	—
States and political subdivisions	122,878	—	122,878	—
Equity securities	2,006	—	2,006	—
Mortgage servicing rights	152	—	—	152
Interest rate derivative asset	2,112	—	—	2,112
Interest rate derivative liability	(2,160)	—	—	(2,160)

The following is a description of inputs and valuation methodologies used for assets recorded at fair value on a recurring basis and recognized in the accompanying statements of financial condition at September 30, 2013 and December 31, 2012, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the nine-month period ended September 30, 2013.

Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. The fair values used by the Company are obtained from an independent pricing service, which represent either quoted market prices for the identical asset or fair values determined by pricing models, or other model-based valuation techniques, that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems. Recurring Level 2 securities include U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, Small Business Administration (SBA) loan pools, state and municipal bonds and equity securities. Inputs used for valuing Level 2 securities include observable data that may include dealer quotes, benchmark yields, market spreads, live trading levels and market consensus prepayment speeds, among other things. Additional inputs include indicative values derived from the independent pricing service's proprietary computerized models. There were no Recurring Level 3 securities at September 30, 2013 or December 31, 2012.

Mortgage Servicing Rights. Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Interest Rate Derivatives. Interest rate derivatives are recorded at fair value on a recurring basis. The fair values used by the Company are obtained from an independent valuation service, and are based on prevailing observable market data, such as the LIBOR swap curves and Overnight Index Swap "OIS" curves, and derived from proprietary models based on well recognized financial principles and reasonable estimates about future market conditions (which may include assumptions and estimates that are not readily observable in the marketplace). Included in the fair values are credit valuation adjustments which represent the consideration of credit risk (credit standing) of the counterparties to the transaction and the effect of any credit enhancements related to the transaction. Certain inputs to the credit valuation models may be based on assumptions and best estimates that are not readily observable in the marketplace.

The Company considers transfers between the levels of the hierarchy to be recognized at the end of related reporting periods. From December 31, 2012 to September 30, 2013, no assets for which fair value is measured on a recurring basis transferred between any levels of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs.

	Mortgage Servicing Rights	
	2013	2012
	(In Thousands)	
Balance, July 1	$246	$194
Additions	32	71
Amortization	(42)	(86)
Balance, September 30	$236	$179

	Mortgage Servicing Rights	
	2013	2012
	(In Thousands)	
Balance, January 1	$152	$292
Additions	224	102
Amortization	(140)	(215)
Balance, September 30	$236	$179

	Interest Rate Swap Asset	
	2013	2012
	(In Thousands)	
Balance, July 1	$1,379	$1,200
Change in fair value through earnings	182	575
Balance, September 30	$1,561	$1,775

	Interest Rate Swap Asset	
	2013	2012
	(In Thousands)	
Balance, January 1	$2,112	$111

Change in fair value through earnings	(551)	1,664
Balance, September 30	$1,561	$1,775

	Interest Rate Cap Derivative Asset Designated as Hedging Instrument	
	2013	2012
	(In Thousands)	
Balance, July 1	$—	$—
Additions	738	—
Change in fair value through other comprehensive income	(69)	—
Balance, September 30	$669	$—

	Interest Rate Cap Derivative Asset Designated as Hedging Instrument	
	2013	2012
	(In Thousands)	
Balance, January 1	$—	$—
Additions	738	—
Change in fair value through other comprehensive income	(69)	—
Balance, September 30	$669	$—

	Interest Rate Swap Liability	
	2013	2012
	(In Thousands)	
Balance, July 1	$1,019	$1,230
Change in fair value through earnings	307	679
Balance, September 30	$1,326	$1,909

	Interest Rate Swap Liability	
	2013	2012
	(In Thousands)	
Balance, January 1	$2,160	$121
Change in fair value through earnings	(834)	1,788
Balance, September 30	$1,326	$1,909

Nonrecurring Measurements

The following tables present the fair value measurements of assets measured at fair value during the periods presented on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012:

		Fair Value Measurements Using		
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In Thousands)			
September 30, 2013				
Impaired loans				
One- to four-family residential construction	$—	$—	$—	$—
Subdivision construction	163	—	—	163
Land development	1,953	—	—	1,953
Owner occupied one- to four-family residential	342	—	—	342
Non-owner occupied one- to four-family residential	254	—	—	254
Commercial real estate	7,064	—	—	7,064
Other residential	2,113	—	—	2,113
Commercial business	61	—	—	61
Consumer auto	30	—	—	30
Consumer other	293	—	—	293
Home equity lines of credit	72	—	—	72
Total impaired loans	$12,345	$—	$—	$12,345
Foreclosed assets held for sale	$2,184	$—	$—	$2,184
December 31, 2012				
Impaired loans				
One- to four-family residential construction	$171	$—	$—	$171
Subdivision construction	1,482	—	—	1,482
Land development	1,463	—	—	1,463
Owner occupied one- to four-family residential	2,638	—	—	2,638
Non-owner occupied one- to four-family residential	2,392	—	—	2,392
Commercial real estate	21,764	—	—	21,764
Other residential	4,162	—	—	4,162
Commercial business	2,186	—	—	2,186
Consumer auto	51	—	—	51
Consumer other	286	—	—	286
Home equity lines of credit	44	—	—	44
Total impaired loans	$36,639	$—	$—	$36,639
Foreclosed assets held for sale	$11,360	$—	$—	$11,360

The following is a description of valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy.

Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as Nonrecurring Level 2. Write-downs to fair value typically do not occur as the Company generally enters into commitments to sell individual mortgage loans at the time the loan is originated to reduce market risk. The Company typically does not have commercial loans held for sale. At September 30, 2013 and December 31, 2012, the aggregate fair value of mortgage loans held for sale exceeded their cost. Accordingly, no mortgage loans held for sale were marked down and reported at fair value.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a loan is considered impaired, the amount of reserve required under FASB ASC 310, Receivables, is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. All appraised values are adjusted for market-related trends based on the Company's experience in sales and other appraisals of similar property types as well as estimated selling costs. Each quarter management reviews all collateral dependent impaired loans on a loan-by-loan basis to determine whether updated appraisals are necessary based on loan performance, collateral type and guarantor support. At times, the Company measures the fair value of collateral dependent impaired loans using appraisals with dates prior to one year from the date of review. These appraisals are discounted by applying current, observable market data about similar property types such as sales contracts, estimations of value by individuals familiar with the market, other appraisals, sales or collateral assessments based on current market activity until updated appraisals are obtained. Depending on the length of time since an appraisal was performed and the data provided through our reviews, these appraisals are typically discounted 10-40%. The policy described above is the same for all types of collateral dependent impaired loans.

The Company records impaired loans as Nonrecurring Level 3. If a loan's fair value as estimated by the Company is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a reserve within the allowance for loan losses specific to the loan. Loans for which such charge-offs or reserves were recorded during the nine months ended September 30, 2013 or the year ended December 31, 2012, are shown in the table above (net of reserves).

Foreclosed Assets Held for Sale. Foreclosed assets held for sale are initially recorded at fair value less estimated cost to sell at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Foreclosed assets held for sale are classified as Level 3. The foreclosed assets represented in the table above have been re-measured during the nine months ended September 30, 2013 or the year ended December 31, 2012, subsequent to their initial transfer to foreclosed assets.

The following disclosure relates to financial assets for which it is not practicable for the Company to estimate the fair value at September 30, 2013 and December 31, 2012.

FDIC Indemnification Asset: As part of the Purchase and Assumption Agreements, the Bank and the FDIC entered into loss sharing agreements. These agreements cover realized losses on loans and foreclosed real estate, subject to certain limitations which are more fully described in Note 8.

Under the TeamBank agreement, the FDIC agreed to reimburse the Bank for 80% of the first $115 million in realized losses and 95% for realized losses that exceed $115 million. The indemnification asset was originally recorded at fair value on the acquisition date (March 20, 2009) and at September 30, 2013 and December 31, 2012, the carrying value was $2.3 million and $7.9 million, respectively.

Under the Vantus Bank agreement, the FDIC agreed to reimburse the Bank for 80% of the first $102 million in realized losses and 95% for realized losses that exceed $102 million. The indemnification asset was originally recorded at fair value on the acquisition date (September 4, 2009) and at September 30, 2013 and December 31, 2012, the carrying value of the FDIC indemnification asset was $3.0 million and $7.3 million, respectively.

Under the Sun Security Bank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (October 7, 2011) and at September 30, 2013 and December 31, 2012, the carrying value of the FDIC indemnification asset was $13.1 million and $26.8 million, respectively.

Under the InterBank agreement, the FDIC agreed to reimburse the Bank for 80% of realized losses. The indemnification asset was originally recorded at fair value on the acquisition date (April 27, 2012) and at September 30, 2013 and December 31, 2012, the carrying value of the FDIC indemnification asset was $62.1 million and $75.3 million, respectively.

From the dates of acquisition, each of the four agreements extend ten years for 1-4 family real estate loans and five years for other loans. The loss sharing assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should the Bank choose to dispose of them. Fair values on the acquisition dates were estimated using projected cash flows available for loss sharing based on the credit adjustments estimated for each loan pool and the loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. The loss sharing assets are also separately measured from the related foreclosed real estate. Although the assets are contractual receivables from the FDIC, they do not have effective interest rates. The Bank will collect the assets over the next several years. The amount ultimately collected will depend on the timing and amount of collections and charge-offs on the acquired assets covered by the loss sharing agreements. While the assets were recorded at their estimated fair values on the acquisition dates, it is not practicable to complete fair value analyses on a quarterly or annual basis. Estimating the fair value of the FDIC indemnification asset would involve preparing fair value analyses of the entire portfolios of loans and foreclosed assets covered by the loss sharing agreements from all four acquisitions on a quarterly or annual basis.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial condition at amounts other than fair value:

Cash and Cash Equivalents and Federal Home Loan Bank Stock. The carrying amount approximates fair value.

Loans and Interest Receivable. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amount of accrued interest receivable approximates its fair value.

Deposits and Accrued Interest Payable. The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date, i.e., their carrying amounts. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Federal Home Loan Bank Advances. Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing advances.