

GREAT SOUTHERN BANCORP INC
Form 10-Q
August 11, 2014

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

FORM 10-Q

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

For the Quarterly Period ended June 30, 2014

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation
or organization)

43-1524856
(IRS Employer Identification Number)

1451 E. Battlefield, Springfield, Missouri
(Address of principal executive offices)

65804
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

(Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes / / No /X/

The number of shares outstanding of each of the registrant's classes of common stock: 13,689,550 shares of common stock, par value \$.01, outstanding at August 7, 2014.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

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

	JUNE 30, 2014 (Unaudited)	DECEMBER 31, 2013
ASSETS		
Cash	\$ 130,760	\$ 96,167
Interest-bearing deposits in other financial institutions	69,838	131,758
Federal funds sold	22,628	—
Cash and cash equivalents	223,226	227,925
Available-for-sale securities	569,030	555,281
Held-to-maturity securities (fair value \$504 – June 2014; \$912 - December 2013)	450	805
Mortgage loans held for sale	9,605	7,239
Loans receivable, net of allowance for loan losses of \$38,082 – June 2014; \$40,116 - December 2013	2,790,774	2,439,530
FDIC indemnification asset	58,352	72,705
Interest receivable	11,685	11,408
Prepaid expenses and other assets	68,466	72,904
Other real estate owned, net	46,226	53,514
Premises and equipment, net	118,649	104,534
Goodwill and other intangible assets	8,385	4,583
Investment in Federal Home Loan Bank stock	8,054	9,822
Total Assets	\$3,912,902	\$ 3,560,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$3,201,728	\$ 2,808,626
Federal Home Loan Bank advances	91,686	126,757
Securities sold under reverse repurchase agreements with customers	157,683	134,981
Short-term borrowings	1,158	1,128
Structured repurchase agreements	—	50,000
Subordinated debentures issued to capital trusts	30,929	30,929
Accrued interest payable	1,096	1,099
Advances from borrowers for taxes and insurance	7,026	3,721
Accounts payable and accrued expenses	16,230	18,502
Current and deferred income tax liability	5,815	3,809
Total Liabilities	3,513,351	3,179,552
Stockholders' Equity:		
Capital stock		
Serial preferred stock – \$.01 par value; authorized 1,000,000 shares; issued and outstanding June 2014 and December 2013 - 57,943 shares,	57,943	57,943

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\$1,000 liquidation amount		
Common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding June 2014 – 13,684,680 shares; December 2013 - 13,673,709 shares	137	137
Additional paid-in capital	20,093	19,567
Retained earnings	314,503	300,589
Accumulated other comprehensive income	6,875	2,462
Total Stockholders' Equity	399,551	380,698
Total Liabilities and Stockholders' Equity	\$3,912,902	\$ 3,560,250
See Notes to Consolidated Financial Statements		

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	THREE MONTHS ENDED	
	JUNE 30,	
	2014	2013
		Retrospectively Adjusted – Note 3
INTEREST INCOME	(Unaudited)	
Loans	\$ 41,412	\$ 39,362
Investment securities and other	2,972	4,119
TOTAL INTEREST INCOME	44,384	43,481
INTEREST EXPENSE		
Deposits	2,752	3,263
Federal Home Loan Bank advances	1,010	989
Short-term borrowings and repurchase agreements	512	588
Subordinated debentures issued to capital trusts	139	140
TOTAL INTEREST EXPENSE	4,413	4,980
NET INTEREST INCOME	39,971	38,501
PROVISION FOR LOAN LOSSES	1,462	3,671
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	38,509	34,830
NON-INTEREST INCOME		
Commissions	344	350
Service charges and ATM fees	4,728	4,644
Net realized gains on sales of loans	608	1,628
Net realized gains on sales of available-for-sale securities	569	97
Late charges and fees on loans	265	201
Gain (loss) on derivative interest rate products	(130)	347
Initial gain recognized on business acquisition	10,805	—
Accretion (amortization) of income/expense related to business acquisitions	(7,210)	(5,694)
Other income	652	754
TOTAL NON-INTEREST INCOME	10,631	2,327
NON-INTEREST EXPENSE		
Salaries and employee benefits	13,470	13,078
Net occupancy and equipment expense	5,210	5,100
Postage	844	871
Insurance	953	957
Advertising	438	691
Office supplies and printing	367	323
Telephone	681	803
Legal, audit and other professional fees	908	948
Expense on foreclosed assets	1,342	1,355
Partnership tax credit investment amortization	427	632

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Other operating expenses	9,759	1,954
TOTAL NON-INTEREST EXPENSE	34,399	26,712
INCOME BEFORE INCOME TAXES	14,741	10,445
PROVISION FOR INCOME TAXES	3,687	2,221
NET INCOME	11,054	8,224
Preferred stock dividends	145	145
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 10,909	\$ 8,079

	THREE MONTHS ENDED			
	JUNE 30,			
	2014		2013	
BASIC EARNINGS PER COMMON SHARE	\$	0.80	\$	0.59
DILUTED EARNINGS PER COMMON SHARE	\$	0.79	\$	0.59
DIVIDENDS DECLARED PER COMMON SHARE	\$	0.20	\$	0.18

See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED JUNE 30,	
	2014	2013 Retrospectively Adjusted – Note 3
INTEREST INCOME	(Unaudited)	
Loans	\$ 80,721	\$ 82,140
Investment securities and other	5,958	8,697
TOTAL INTEREST INCOME	86,679	90,837
INTEREST EXPENSE		
Deposits	5,413	6,789
Federal Home Loan Bank advances	1,984	1,963
Short-term borrowings and repurchase agreements	1,069	1,170
Subordinated debentures issued to capital trusts	275	281
TOTAL INTEREST EXPENSE	8,741	10,203
NET INTEREST INCOME	77,938	80,634
PROVISION FOR LOAN LOSSES	3,154	11,896
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	74,784	68,738
NON-INTEREST INCOME		
Commissions	626	678
Service charges and ATM fees	8,896	9,071
Net realized gains on sales of loans	1,157	3,057
Net realized gains on sales of available-for-sale securities	642	131
Late charges and fees on loans	579	501
Gain (loss) on derivative interest rate products	(233)	408
Initial gain recognized on business acquisition	10,805	—
Accretion (amortization) of income/expense related to business acquisitions	(13,598)	(11,561)
Other income	2,681	2,965
TOTAL NON-INTEREST INCOME	11,555	5,250
NON-INTEREST EXPENSE		
Salaries and employee benefits	26,487	26,300
Net occupancy and equipment expense	10,614	10,235
Postage	1,637	1,664
Insurance	1,879	2,121
Advertising	1,169	1,166
Office supplies and printing	657	629
Telephone	1,417	1,490
Legal, audit and other professional fees	1,841	1,750

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Expense on foreclosed assets	2,192		2,410
Partnership tax credit investment amortization	880		995
Other operating expenses	11,520		3,873
TOTAL NON-INTEREST EXPENSE	60,293		52,633
INCOME BEFORE INCOME TAXES	26,046		21,355
PROVISION FOR INCOME TAXES	6,174		4,737
NET INCOME	19,872		16,618
Preferred stock dividends	290		290
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 19,582	\$	16,328

	SIX MONTHS ENDED			
	JUNE 30,			
	2014		2013	
BASIC EARNINGS PER COMMON SHARE	\$	1.43	\$	1.20
DILUTED EARNINGS PER COMMON SHARE	\$	1.42	\$	1.19
DIVIDENDS DECLARED PER COMMON SHARE	\$	0.40	\$	0.36
See Notes to Consolidated Financial Statements				

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

	THREE MONTHS ENDED JUNE 30,	
	2014	2013 (Unaudited)
Net Income	\$ 11,054	\$ 8,224
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of \$1,145 and \$(3,979), for 2014 and 2013, respectively	2,126	(7,389)
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 \$1, for 2014 and 2013, respectively	—	1
Reclassification adjustment for gains included in net income, net of taxes of \$(199) and \$(34), for 2014 and 2013, respectively	(370)	(63)
Change in fair value of cash flow hedge, net of taxes (credit) of \$(54) and \$0, for 2014 and 2013, respectively	(101)	—
Comprehensive Income	\$ 12,709	\$ 773
	SIX MONTHS ENDED JUNE 30,	
	2014	2013 (Unaudited)
Net Income	\$ 19,872	\$ 16,618
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes (credit) of \$2,678 and \$(4,051), for 2014 and 2013, respectively	4,973	(7,524)
Non-credit component of unrealized gain (loss) on available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized, net of taxes (credit) of \$0 and \$(20), for 2014 and 2013, respectively	—	(37)
Reclassification adjustment for gains included in net income, net of taxes of \$(225) and \$(46), for 2014 and 2013, respectively	(417)	(85)
Change in fair value of cash flow hedge, net of taxes (credit) of \$(77) and \$0, for 2014 and 2013, respectively	(143)	—

Comprehensive Income	\$24,285	\$8,972
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See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED JUNE 30,	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 19,872	\$ 16,618
Proceeds from sales of loans held for sale	47,922	125,536
Originations of loans held for sale	(49,089)	(126,003)
Items not requiring (providing) cash:		
Depreciation	4,220	3,935
Amortization of other assets	1,525	3,536
Compensation expense for stock option grants	273	221
Provision for loan losses	3,154	11,896
Net gains on loan sales	(1,157)	(3,057)
Net gains on sale or impairment of available-for-sale investment securities	(642)	(131)
Net gains on sale of premises and equipment	(41)	(17)
Loss on sale of foreclosed assets	790	1,552
Initial gain recognized on business acquisition	(10,805)	—
Amortization of deferred income, premiums, discounts and fair value adjustments	11,605	14,659
(Gain) loss on derivative interest rate products	233	(408)
Deferred income taxes	(371)	(5,101)
Changes in:		
Interest receivable	761	418
Prepaid expenses and other assets	(288)	(3,960)
Accounts payable and accrued expenses	(3,492)	2,550
Income taxes refundable/payable	—	(7,130)
Net cash provided by operating activities	24,470	35,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(143,068)	(23,202)
Purchase of loans	(39,926)	—
Cash received from acquisitions	189,437	—
Cash received from FDIC loss sharing reimbursements	5,894	16,092
Purchase of premises and equipment	(7,170)	(5,748)
Proceeds from sale of premises and equipment	197	1,204
Proceeds from sale of foreclosed assets	12,362	19,331
Capitalized costs on foreclosed assets	(40)	(174)
Proceeds from sales of available-for-sale investment securities	41,312	3,932
Proceeds from maturing investment securities	110	—
Proceeds from called investment securities	4,535	4,160
Principal reductions on mortgage-backed securities	53,996	126,294
Purchase of available-for-sale securities	(19,914)	(87,487)
Redemption (purchase) of Federal Home Loan Bank stock	1,768	(279)
Net cash provided by investing activities	99,493	54,123
CASH FLOWS FROM FINANCING ACTIVITIES		

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Net decrease in certificates of deposit	(102,932)	(165,345)
Net increase in checking and savings deposits	37,138	26,925
Proceeds from Federal Home Loan Bank advances	245,000	1,980
Repayments of Federal Home Loan Bank advances	(277,284)	(145)
Net increase in short-term borrowings	22,165	16,516
Repayments of structured repurchase agreements	(50,000)	—
Advances from borrowers for taxes and insurance	2,677	2,248
Dividends paid	(5,490)	(2,763)
Purchase of company stock	(481)	—
Stock options exercised	545	516
Net cash used in financing activities	(128,662)	(120,068)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,699)	(30,831)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	227,925	404,141
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 223,226	\$ 373,310

See Notes to Consolidated Financial Statements

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

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial condition, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2013, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for 2013 filed with the Securities and Exchange Commission.

NOTE 2: NATURE OF OPERATIONS AND OPERATING SEGMENTS

The Company operates as a one-bank holding company. The Company's business primarily consists of the operations of Great Southern Bank (the "Bank"), which provides a full range of financial services to customers primarily located in Missouri, Iowa, Kansas, Minnesota, Nebraska and Arkansas. In addition, the Company also operates commercial loan production offices in Dallas, Texas and Tulsa, Oklahoma. The Company and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

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

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU No. 2014-01 to amend FASB ASC Topic 323, Investments – Equity Method and Joint Ventures. The objective of this Update is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in the Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The Update would be effective

for the Company beginning January 1, 2015; however, early adoption was permitted. The Company elected to adopt this Update early, adopting it during the three months ended March 31, 2014. There was no material impact on the Company's financial position or results of operations, except that the investment amortization expense which was previously included in Other Noninterest Expense in the Consolidated Statements of Income was moved from Other Noninterest Expense to Provision for Income Taxes in the Consolidated Statements of Income. For the three months ended June 30, 2013, \$905,000 was moved from Other Noninterest Expense to Provision for Income Taxes. For the six months ended June 30, 2013, \$1.9 million was moved from Other Noninterest Expense to Provision for Income Taxes. This had the effect of reducing Noninterest Expense and increasing Provision for Income Taxes, but did not have any impact on Net Income.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016 and early application is not permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's financial position or results of operations.

NOTE 4: STOCKHOLDERS' EQUITY

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

NOTE 5: EARNINGS PER SHARE

	Three Months Ended June 30,	
	2014	2013
	(In Thousands, Except Per Share Data)	
Basic:		
Average shares outstanding	13,685	13,619
Net income available to common stockholders	\$ 10,909	\$ 8,079
Per share amount	\$0.80	\$0.59
Diluted:		
Average shares outstanding	13,685	13,619
Net effect of dilutive stock options and warrants – based on the treasury stock method using average market price	95	62

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Diluted shares	13,780	13,681
Net income available to common stockholders	\$10,909	\$8,079
Per share amount	\$0.79	\$0.59

	Six Months Ended June 30,	
	2014	2013
(In Thousands, Except Per Share Data)		
Basic:		
Average shares outstanding	13,685	13,618
Net income available to common stockholders	\$19,582	\$16,328
Per share amount	\$1.43	\$1.20
Diluted:		
Average shares outstanding	13,685	13,618
Net effect of dilutive stock options and warrants – based on the treasury stock method using average market price	95	62
Diluted shares	13,780	13,680
Net income available to common stockholders	\$19,582	\$16,328
Per share amount	\$1.42	\$1.19

Options to purchase 182,275 and 341,950 shares of common stock were outstanding at June 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per share for each of the three month and six month periods because the options' exercise prices were greater than the average market prices of the common shares for the three and six months ended June 30, 2014 and 2013, respectively.

NOTE 6: INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	June 30, 2014		Fair Value	Tax Equivalent Yield
			Gross Unrealized Losses			
(In Thousands)						
AVAILABLE-FOR-SALE SECURITIES:						
U.S. government agencies	\$20,000	\$—	\$1,179	\$18,821	2.00	%
Mortgage-backed securities	373,667	5,457	1,281	377,843	1.86	
Collateralized mortgage obligations	39,746	6	2	39,750	2.72	
States and political subdivisions	123,922	6,020	296	129,646	5.38	
Equity securities	847	2,123	—	2,970	—	
	\$558,182	\$13,606	\$2,758	\$569,030	2.70	%
HELD-TO-MATURITY SECURITIES:						
States and political subdivisions	\$450	\$54	\$—	\$504	7.37	%

	Amortized Cost	Gross Unrealized Gains	December 31, 2013		Fair Value	Tax Equivalent Yield
			Gross Unrealized Losses			
(In Thousands)						
AVAILABLE-FOR-SALE SECURITIES:						

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U.S. government agencies	\$20,000	\$—	\$2,745	\$17,255	2.00	%
Mortgage-backed securities	365,020	4,824	2,266	367,578	2.04	
Small Business Administration						
loan pools	43,461	1,394	—	44,855	1.34	
States and political subdivisions	122,113	2,549	1,938	122,724	5.47	
Equity securities	847	2,022	—	2,869	—	
	\$551,441	\$10,789	\$6,949	\$555,281	2.74	%
HELD-TO-MATURITY SECURITIES:						
States and political subdivisions	\$805	\$107	\$—	\$912	7.37	%

The amortized cost and fair value of available-for-sale securities at June 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost (In Thousands)	Fair Value
One year or less	\$110	\$112
After one through five years	1,164	1,167
After five through ten years	8,233	8,550
After ten years	134,415	138,638
Securities not due on a single maturity date	413,413	417,593
Equity securities	847	2,970
	\$558,182	\$569,030

The held-to-maturity securities at June 30, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost (In Thousands)	Fair Value
After one through five years	\$450	\$504

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 June 30, 2014 and December 31, 2013, respectively, was approximately \$187.0 million and \$237.6 million, which is approximately 32.9% and 42.7% of the Company's available-for-sale and held-to-maturity investment portfolio, respectively.

Based on an evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary at June 30, 2014.

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013:

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

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U.S. government agencies	\$—	\$—	\$20,000	\$(1,179)	\$20,000	\$(1,179)
Mortgage-backed securities	41,280	(192)	83,180	(1,089)	124,460	(1,281)
Collateralized mortgage obligations	22,091	(2)	—	—	22,091	(2)
State and political subdivisions	3,594	(16)	16,834	(280)	20,428	(296)
	\$66,965	\$(210)	\$120,014	\$(2,548)	\$186,979	\$(2,758)

Description of Securities	Less than 12 Months		December 31, 2013 12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	(In Thousands)					
U.S. government agencies	\$20,000	\$(2,745)	\$—	\$—	\$20,000	\$(2,745)
Mortgage-backed securities	127,901	(1,871)	39,255	(395)	167,156	(2,266)
State and political subdivisions	50,401	(1,938)	—	—	50,401	(1,938)
	\$198,302	\$(6,554)	\$39,255	\$(395)	\$237,557	\$(6,949)

Gross gains of \$569,000 and \$642,000 and gross losses of \$-0- and \$-0- resulting from sales of available-for-sale securities were realized for the three and six months ended June 30, 2014. Gross gains of \$117,000 and \$151,000 and gross losses of \$20,000 and \$20,000 resulting from sales of available-for-sale securities were realized for the three and six months ended June 30, 2013. Gains and losses on sales of securities are determined on the specific-identification method.

At June 30, 2014, investment securities included \$88.5 million of securities acquired in the Valley Bank transaction. These securities were comprised of \$39.8 million of government agency collateralized mortgage obligations, \$47.8 million of government agency mortgage-backed securities and \$978,000 of securities issued by states and political subdivisions. The Company sold these securities in July 2014 and recorded a gain of approximately \$175,000. See Note 16 FDIC-Assisted Acquisition for further information on the Valley acquisition.

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 six months ended June 30, 2014, no securities were determined to have impairment that was other than temporary.

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

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

	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
April 1, 2014	\$—
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	—
June 30, 2014	\$—
	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
April 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)
June 30, 2013	\$—
	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
January 1, 2014	\$—
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	—
June 30, 2014	\$—
	Accumulated Credit Losses (In Thousands)
Credit losses on debt securities held	
January 1, 2013	\$4,176

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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)
June 30, 2013	\$—	

Amounts Reclassified Out of Accumulated Other Comprehensive Income. Amounts reclassified from accumulated other comprehensive income and the affected line items in the statements of income during the three and six months ended June 30, 2014 and 2013, were as follows:

	Amounts Reclassified from Other Comprehensive Income Three Months Ended June 30,		Affected Line Item in the Statements of Income
	2014	2013	
	(In Thousands)		
Unrealized gains (losses) on available- for-sale securities	\$569	\$97	Net realized gains on available- for-sale securities (Total reclassified amount before tax)
Income Taxes	(199) (34) Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	\$370	\$63	

	Amounts Reclassified from Other Comprehensive Income Six Months Ended June 30,		Affected Line Item in the Statements of Income
	2014	2013	
	(In Thousands)		
Unrealized gains (losses) on available- for-sale securities	\$642	\$131	Net realized gains on available- for-sale securities (Total reclassified amount before tax)
Income Taxes	(225) (46) Provision for income taxes
Total reclassifications out of accumulated other comprehensive income	\$417	\$85	

NOTE 7: LOANS AND ALLOWANCE FOR LOAN LOSSES

	June 30, 2014	December 31, 2013
	(In Thousands)	
One- to four-family residential construction	\$39,505	\$34,662
Subdivision construction	36,627	40,409
Land development	63,437	57,841
Commercial construction	270,517	184,019
Owner occupied one- to four-family residential	95,806	89,133
Non-owner occupied one- to four-family residential	142,404	145,908
Commercial real estate	844,893	780,690
Other residential	342,969	