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**OKSB 10-Q 9/30/2008**

**Section 1: 10-Q (FORM 10-Q)**

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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-23064

**SOUTHWEST BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Oklahoma  
(State or other jurisdiction of  
incorporation or organization)

73-1136584  
(I.R.S. Employer  
Identification Number)

608 South Main Street  
Stillwater, Oklahoma  
(Address of principal executive office)

74074  
(Zip Code)

Registrant's telephone number, including area code: (405) 742-1800

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

14,529,405 (11/05/08)

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**SOUTHWEST BANCORP, INC.**  
**INDEX TO FORM 10-Q**

PART I. FINANCIAL INFORMATION	
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	
<a href="#">Unaudited Consolidated Statements of Financial Condition at September 30, 2008 and December 31, 2007</a>	3
<a href="#">Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007</a>	4
<a href="#">Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007</a>	5
<a href="#">Unaudited Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2008</a>	6
<a href="#">Unaudited Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2008 and 2007</a>	7
<a href="#">Notes to Unaudited Consolidated Financial Statements</a>	8
<a href="#">ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	20
<a href="#">ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	35
<a href="#">ITEM 4. CONTROLS AND PROCEDURES</a>	36
<a href="#">PART II. OTHER INFORMATION</a>	38
<a href="#">SIGNATURES</a>	39
<a href="#">EX-31.A: CERTIFICATION</a>	
<a href="#">EX-31.B: CERTIFICATION</a>	
<a href="#">EX-32.A: CERTIFICATION</a>	
<a href="#">EX-32.B: CERTIFICATION</a>	

**SOUTHWEST BANCORP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

<i>(Dollars in thousands)</i>	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>Assets</b>		
Cash and due from banks	\$ 36,503	\$ 45,678
Investment securities:		
Held to maturity, fair value \$7,262 (2008) and \$5,838 (2007)	7,342	5,838
Available for sale, amortized cost \$218,974 (2008) and \$232,880 (2007)	217,198	233,531
Other investments at cost	17,188	17,239
Loans held for sale	72,248	66,275
Loans receivable, net of allowance for loan losses of \$35,807 (2008) and \$29,584 (2007)	2,404,284	2,115,973
Accrued interest receivable	12,530	23,117
Premises and equipment, net	24,799	24,323
Other real estate	2,685	2,679
Goodwill	7,071	7,064
Other intangible assets, net	4,120	4,580
Other assets	26,403	18,001
Total assets	\$2,832,371	\$2,564,298
<b>Liabilities and shareholders' equity</b>		
Deposits:		
Noninterest-bearing demand	\$ 280,453	\$ 257,067
Interest-bearing demand	70,471	63,323
Money market accounts	554,357	541,950
Savings accounts	14,452	13,032
Time deposits of \$100,000 or more	731,773	690,985
Other time deposits	547,213	492,222
Total deposits	2,198,719	2,058,579
Accrued interest payable	9,992	11,441
Income tax payable	3,828	1,766
Other liabilities	12,628	10,154
Other borrowings	299,118	218,356
Subordinated debentures	81,963	46,393
Total liabilities	2,606,248	2,346,689
<b>Shareholders' equity:</b>		
Common stock — \$1 par value; 20,000,000 shares authorized; 14,658,042 shares issued and outstanding	14,658	14,658
Paid in capital	45,849	46,478
Retained earnings	169,026	161,482
Accumulated other comprehensive income (loss)	(1,075)	408
Treasury stock, at cost; 129,586 (2008) and 300,833 (2007) shares	(2,335)	(5,417)
Total shareholders' equity	226,123	217,609
Total liabilities & shareholders' equity	\$2,832,371	\$2,564,298

The accompanying notes are an integral part of this statement.

**SOUTHWEST BANCORP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>(Dollars in thousands, except earnings per share data)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest income:</b>				
Interest and fees on loans	\$38,441	\$42,346	\$116,536	\$122,210
Investment securities:				
U.S. government and agency obligations	818	2,196	2,733	6,476
Mortgage-backed securities	1,484	370	3,828	996
State and political subdivisions	98	85	288	177
Other securities	131	165	444	693
Other interest-earning assets	22	39	70	219
<b>Total interest income</b>	<b>40,994</b>	<b>45,201</b>	<b>123,899</b>	<b>130,771</b>
<b>Interest expense:</b>				
Interest-bearing demand	147	82	454	261
Money market accounts	2,898	5,589	10,488	14,294
Savings accounts	17	24	58	65
Time deposits of \$100,000 or more	6,879	7,445	21,795	23,358
Other time deposits	4,457	5,684	14,964	15,962
Other borrowings	1,839	1,715	5,755	4,935
Subordinated debentures	1,569	956	3,080	2,835
<b>Total interest expense</b>	<b>17,806</b>	<b>21,495</b>	<b>56,594</b>	<b>61,710</b>
<b>Net interest income</b>	<b>23,188</b>	<b>23,706</b>	<b>67,305</b>	<b>69,061</b>
Provision for loan losses	6,855	2,149	12,281	6,117
<b>Net interest income after provision for loan losses</b>	<b>16,333</b>	<b>21,557</b>	<b>55,024</b>	<b>62,944</b>
<b>Noninterest income:</b>				
Service charges and fees	2,849	2,548	8,118	7,089
Other noninterest income	662	422	1,349	1,138
Gain on sales of loans	601	548	2,044	2,556
Gain (loss) on securities	(50)	108	1,198	1,579
<b>Total noninterest income</b>	<b>4,062</b>	<b>3,626</b>	<b>12,709</b>	<b>12,362</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	8,863	8,966	26,941	25,449
Occupancy	2,968	2,514	8,028	7,305
FDIC and other insurance	469	134	1,443	397
Other real estate, net	(92)	(12)	115	(122)
General and administrative	4,325	4,560	12,168	14,772
<b>Total noninterest expense</b>	<b>16,533</b>	<b>16,162</b>	<b>48,695</b>	<b>47,801</b>
<b>Income before taxes</b>	<b>3,862</b>	<b>9,021</b>	<b>19,038</b>	<b>27,505</b>
Taxes on income	1,556	3,505	7,362	10,648
<b>Net income</b>	<b>\$ 2,306</b>	<b>\$ 5,516</b>	<b>\$ 11,676</b>	<b>\$ 16,857</b>
Basic earnings per share	\$ 0.16	\$ 0.38	\$ 0.81	\$ 1.18
Diluted earnings per share	\$ 0.16	\$ 0.38	\$ 0.80	\$ 1.15
Cash dividends declared per share	\$0.0950	\$0.0925	\$ 0.2850	\$ 0.2775

The accompanying notes are an integral part of this statement.

**SOUTHWEST BANCORP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(Dollars in thousands)</i>	<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities:</b>		
Net income	\$ 11,676	\$ 16,857
Adjustments to reconcile net income to net cash cash provided by operating activities:		
Provision for loan losses	12,281	6,117
Deferred tax benefit	(2,191)	(1,371)
Asset depreciation	2,167	2,123
Securities premium amortization (discount accretion), net	77	(157)
Amortization of intangibles	945	488
Stock based compensation	417	787
Net gain on sale/call of investment securities	(1,198)	(1,579)
Net gain on sales of available for sale loans	(2,044)	(2,556)
Net loss on sales of premises/equipment	248	11
Net gain on other real estate owned	(558)	(11)
Proceeds from sales of residential mortgage loans	49,830	40,386
Residential mortgage loans originated for resale	(49,147)	(39,145)
Proceeds from sales of student loans	74,503	237,057
Student loans originated for resale	(79,768)	(127,500)
Net change in assets and liabilities:		
Accrued interest receivable	10,587	1,952
Other assets	(5,645)	5,510
Income taxes payable	2,361	1,381
Excess tax benefit from share-based payment arrangements	(306)	(439)
Accrued interest payable	(1,449)	(2,399)
Other liabilities	2,171	43
Net cash provided by operating activities	24,957	137,555
<b>Investing activities:</b>		
Proceeds from sales of available for sale securities	7,735	9,955
Proceeds from principal repayments, calls and maturities:		
Held to maturity securities	1,500	—
Available for sale securities	179,686	11,457
Purchases of other investments	(299)	(676)
Purchases of held to maturity securities	(2,500)	(3,700)
Purchases of available for sale securities	(172,897)	(15,998)
Loans originated and principal repayments, net	(310,233)	(291,315)
Net acquisition Bank of Kansas (2007)	—	(4,057)
Purchases of premises and equipment	(3,053)	(2,343)
Proceeds from sales of premises and equipment	192	62
Proceeds from sales of other real estate owned	11,416	449
Net cash used in investing activities	(288,453)	(296,166)
<b>Financing activities:</b>		
Net increase in deposits	140,140	81,332
Net increase in other borrowings	80,762	52,753
Net proceeds from issuance of common stock	1,622	893
Net proceeds from issuance of subordinated debentures	35,570	—
Excess tax benefit from share-based payment arrangements	306	439
Common stock dividends paid	(4,079)	(3,820)
Net cash provided from financing activities	254,321	131,597
Net change in cash and cash equivalents	(9,175)	(27,014)
<b>Cash and cash equivalents:</b>		
Beginning of period	45,678	57,618
End of period	\$ 36,503	\$ 30,604

The accompanying notes are an integral part of this statement.

**SOUTHWEST BANCORP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

<i>(Dollars in thousands)</i>	<b>Common Stock</b>		<b>Paid in</b>	<b>Retained</b>	<b>Accumulated</b>	<b>Treasury</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	<b>Other</b>	<b>Stock</b>	<b>Shareholders'</b>
					<b>Comprehensive</b>		<b>Equity</b>
					<b>Income (Loss)</b>		
Balance, December 31, 2007	14,658,042	\$14,658	\$46,478	\$161,482	\$ 408	\$(5,417)	\$217,609
Cash dividends declared:							
Common, \$0.285 per share, and other dividends	—	—	—	(4,132)	—	—	(4,132)
Common stock issued:							
Employee Stock Option Plan	—	—	(1,103)	—	—	2,629	1,526
Employee Stock Purchase Plan	—	—	(9)	—	—	79	70
Dividend Reinvestment Plan	—	—	(2)	—	—	28	26
Restricted Stock	—	—	(21)	—	—	346	325
Tax benefit related to exercise of stock options	—	—	306	—	—	—	306
Stock Compensation Expense	—	—	200	—	—	—	200
Other comprehensive income, net of tax	—	—	—	—	(1,483)	—	(1,483)
Net income	—	—	—	11,676	—	—	11,676
Balance, September 30, 2008	14,658,042	\$14,658	\$45,849	\$169,026	\$(1,075)	\$(2,335)	\$226,123

The accompanying notes are an integral part of this statement.

**SOUTHWEST BANCORP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(Dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income	\$2,306	\$5,516	\$11,676	\$16,857
<b>Other comprehensive income:</b>				
Unrealized holding gain (loss) on available for sale securities	255	1,947	(1,229)	4,752
Reclassification adjustment for (gains) losses arising during the period	50	(108)	(1,198)	(1,579)
Other comprehensive income (loss), before tax	305	1,839	(2,427)	3,173
Tax (expense) benefit related to items of other comprehensive income	(124)	(673)	944	(1,226)
Other comprehensive income (loss), net of tax	181	1,166	(1,483)	1,947
Comprehensive income	\$2,487	\$6,682	\$10,193	\$18,804

The accompanying notes are an integral part of this statement.

**SOUTHWEST BANCORP, INC.**  
**Notes to Unaudited Consolidated Financial Statements**

**NOTE 1: GENERAL**

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations, shareholders' equity, cash flows, and comprehensive income in conformity with accounting principles generally accepted in the United States. However, the unaudited consolidated financial statements include all adjustments which, in the opinion of management, are necessary for a fair presentation. Those adjustments consist of normal recurring adjustments. The results of operations for the nine months ended September 30, 2008, and the cash flows for the nine months ended September 30, 2008, should not be considered indicative of the results to be expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Southwest Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 2007.

**NOTE 2: PRINCIPLES OF CONSOLIDATION**

The accompanying unaudited consolidated financial statements include the accounts of Southwest Bancorp, Inc. ("Southwest"), its wholly owned financial institution subsidiaries, Stillwater National Bank and Trust Company ("Stillwater National"), SNB Bank of Wichita ("SNB Wichita"), Bank of Kansas ("SNB Kansas"), and its management consulting subsidiaries, Healthcare Strategic Support, Inc. ("HSSI"), and Business Consulting Group, Inc. ("BCG"). All significant intercompany transactions and balances have been eliminated in consolidation.

**NOTE 3: RECLASSIFICATIONS**

Certain reclassifications have been made to prior year amounts of investment securities, other assets, and income statement accounts to conform to current year presentation. The income statement reclassifications had no impact on previously reported net income.

**NOTE 4: INVESTMENT SECURITIES AND OTHER INVESTMENTS**

The following table presents securities with gross unrealized losses and fair value by length of time that the individual securities had been in a continuous unrealized loss position at September 30, 2008. Securities whose market values exceed cost are excluded from this table.

<i>(Dollars in thousands)</i>	Number of Securities	Amortized Cost	Continuous Unrealized Loss Existing for:		Fair Value
			Less Than 12 Months	More Than 12 Months	
<b>Held to Maturity:</b>					
Obligations of state and political subdivisions	10	\$ 6,796	\$ (81)	\$ —	\$ 6,715
Total	10	\$ 6,796	\$ (81)	\$ —	\$ 6,715
<b>Available for Sale:</b>					
Federal agency securities	16	\$ 61,762	\$ (623)	\$ —	\$ 61,139
Obligations of state and political subdivisions	1	1,250	(3)	—	1,247
Mortgage-backed securities	33	94,848	(2,058)	—	92,790
Total	50	\$157,860	\$(2,684)	\$ —	\$155,176

Mortgage-backed securities consist of agency securities underwritten and guaranteed by Government National Mortgage Association ("Ginnie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), and Federal National Mortgage Association ("Fannie Mae").

Southwest evaluates securities on an individual basis for other-than-temporary impairment on at least a quarterly basis. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial

## [Table of Contents](#)

condition and near-term prospects of the issuer, and the intent and ability of Southwest to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The declines in fair value noted in the table above were attributable to increases in market interest rates over the yields available at the time the underlying securities were purchased. Management does not believe any of the securities are impaired due to reasons of credit quality, and because Southwest has the ability and intent to hold all of these investments until a market price recovery or maturity, the impairment of these investments is not deemed to be other-than-temporary.

### NOTE 5: LOANS AND OTHER REAL ESTATE

Southwest extends commercial and consumer credit primarily to customers in the states of Oklahoma, Texas, and Kansas. Its commercial lending operations are concentrated in Oklahoma City, Dallas, Tulsa, and its other metropolitan markets in Texas, Kansas, and Oklahoma. As a result, the collectibility of Southwest's loan portfolio can be affected by changes in the economic conditions in those states and markets. At September 30, 2008 and December 31, 2007, substantially all of Southwest's loans were collateralized with real estate, inventory, accounts receivable, and/or other assets, or were guaranteed by agencies of the United States government or, in the case of private student loans, insured by a private insurer.

As of September 30, 2008, approximately \$667.6 million, or 27%, of Southwest's loan portfolio consisted of loans to individuals and businesses in the healthcare industry. Southwest does not have any other concentrations of loans to individuals or businesses involved in a single industry totaling 10% or more of total loans.

Nonperforming assets and other risk elements of the loan portfolio are shown below as of the indicated dates.

<i>(Dollars in thousands)</i>	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Nonaccrual loans (1)	\$ 61,557	\$ 19,534
Past due 90 days or more	2,299	10,037
Total nonperforming loans	63,856	29,571
Other real estate owned	2,685	2,679
Total nonperforming assets	<u>\$ 66,541</u>	<u>\$ 32,250</u>
Nonperforming loans to portfolio loans receivable	2.62%	1.38%
Allowance for loan losses to nonperforming loans	56.07%	100.04%
Nonperforming assets to portfolio loans receivable and other real estate owned	2.72%	1.50%

(1) The government-guaranteed portion of loans included in these totals was \$1.1 million and \$1.3 million, respectively.

All of the nonaccruing assets are subject to regular tests for impairment as part of Southwest's allowance for loan losses methodology (see Note 6).

During the first nine months of 2008, \$382,000 of interest income was received on nonaccruing loans. If interest on those loans had been accrued for the nine months ended September 30, 2008, additional total interest income of \$1.8 million would have been recorded.

Included in nonaccrual loans as of September 30, 2008, are two collateral dependent lending relationships with aggregate principal balances of approximately \$30.5 million and related impairment reserves of \$4.0 million which was established based on recent appraisal values obtained for the respective properties.

[Table of Contents](#)

**NOTE 6: ALLOWANCE FOR LOAN LOSSES AND RESERVE FOR UNFUNDED LOAN COMMITMENTS**

Activity in the allowance for loan losses is shown below for the indicated periods.

<i>(Dollars in thousands)</i>	<b>For the nine months ended September 30, 2008</b>	<b>For the year ended December 31, 2007</b>	<b>For the nine months ended September 30, 2007</b>
Balance at beginning of period	\$ 29,584	\$ 27,293	\$ 27,293
Loans charged-off:			
Real estate mortgage	1,463	1,877	1,774
Real estate construction	760	129	54
Commercial	3,866	4,579	3,600
Installment and consumer	599	414	281
Total charge-offs	6,688	6,999	5,709
Recoveries:			
Real estate mortgage	43	32	28
Real estate construction	2	—	—
Commercial	470	606	550
Installment and consumer	115	71	35
Total recoveries	630	709	613
Net loans charged-off	6,058	6,290	5,096
Provision for loan losses	12,281	8,581	6,117
Balance at end of period	\$ 35,807	\$ 29,584	\$ 28,314
Loans outstanding:			
Average	\$2,401,162	\$1,922,867	\$1,856,068
End of period	2,512,339	2,211,832	2,011,640
Portfolio loans outstanding (end of period)	2,440,091	2,145,557	1,933,223
Net charge-offs to total average loans (annualized)	0.34%	0.33%	0.37%
Allowance for loan losses to portfolio loans (end of period)	1.47%	1.38%	1.46%

The allowance for loan losses is a reserve established through a provision for loan losses charged to operations. Loan amounts which are determined to be uncollectible are charged against this allowance, and recoveries, if any, are added to the allowance. The appropriate amount of the allowance is based on continuous review and evaluation of the loan portfolio and ongoing, quarterly assessments of the probable losses inherent in the loan and lease portfolio.

Management believes the level of the allowance is appropriate to absorb probable losses inherent in the loan portfolio. The allowance for loan and lease losses is determined in accordance with regulatory guidelines and generally accepted accounting principles and is comprised of two primary components. Loans deemed to be impaired (all loans on nonaccrual) are evaluated on an individual basis consistent with the Statement of Financial Accounting Standards No. 114, *Accounting for Impairment of a Loan* ("SFAS No. 114"). The remaining portion of the allowance is calculated based on the Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("SFAS No. 5"). Loans not evaluated for FAS 114 allowance are segmented into loan pools by type of loan. Estimated allowances are based on historical loss trends with adjustments factored in based on qualitative risk factors both internal and external to the Company. These factors include but are not limited to, economic and business conditions, changes in lending staff, lending policies and procedures, quality of loan review, changes in the nature and volume of the portfolios, loss and recovery trends, asset quality trends, and legal and regulatory considerations.

Management strives to carefully monitor credit quality and to identify loans that may become nonperforming. At any time, however, there are loans included in the portfolio that will result in losses to Southwest, but that have not been identified as nonperforming or potential problem loans. Because the loan portfolio contains a significant number of commercial and commercial real estate loans with relatively large balances, the unexpected deterioration of one or a few such loans may cause a significant increase in nonperforming assets, and may lead to a material increase in charge-offs and the provision for loan losses in future periods.

The reserve for unfunded loan commitments was \$3.3 million, \$3.1 million and \$2.7 million at September 30, 2008, December 31, 2007, and September 30, 2007, respectively. The reserve, which is included in other liabilities on Southwest's

## Table of Contents

statement of financial condition, is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment.

### NOTE 7: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, Southwest adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies only to fair value measurements that are already required or permitted by other generally accepted accounting principles. The adoption of SFAS No. 157 had no impact on Southwest’s financial statements, but it did result in additional required disclosures. On February 12, 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (“FSP No. 157-2”). FSP No. 157-2 amends SFAS No. 157 to delay the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). For items within its scope, FSP No. 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes 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:

- Level 1** Quoted prices in active markets for identical assets or liabilities: Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category includes U.S. Government and agency mortgage-backed debt securities, municipal obligation securities, and loans held for sale.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes certain private equity investments.

As of September 30, 2008, assets measured at fair value on a recurring basis are summarized below:

	Total	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(Dollars in thousands)</i>				
Loans held for sale	\$ 72,248	\$ —	\$ 72,248	\$ —
Available for sale securities	217,198	295	216,015	888
Total	\$289,446	\$295	\$288,263	\$888

## Table of Contents

For the nine months ended September 30, 2008, the following table presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). It also summarizes changes in unrealized gains and losses recorded in earnings for the period for Level 3 assets and liabilities.

	Available for Sale Securities
<i>(Dollars in thousands)</i>	
Balance at December 31, 2007	\$ 982
Total gains or losses (realized/unrealized)	
Included in earnings	
interest income	(9)
noninterest income	(113)
Included in other comprehensive income	28
Purchases, issuances, and settlements	—
Transfers in and/or out of Level 3	—
Balance at September 30, 2008	\$ 888
Changes in unrealized gains or losses included in earnings related to assets still held at reporting date for the nine months ended September 30, 2008	\$(104)

Certain financial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets measured on a nonrecurring basis include other real estate owned, goodwill, core deposit premiums, and mortgage loan servicing rights. These assets are recorded at the lower of cost or fair value. During the first quarter 2008, mortgage loan servicing rights were written down \$260,000 to a fair value of \$1.3 million.

## NOTE 8: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Fair Value Hedges

Southwest has used interest rate swaps in order to offset changes in fair value of fixed rate deposits that occur during periods of interest rate volatility. Southwest was able to demonstrate an effective hedging relationship between derivatives and matched items by proving that their changes in fair values substantially offset. Southwest entered into interest rate swap agreements with the objective of converting the fixed interest rate on selected retail brokered CDs to a variable interest rate. The swap agreements required Southwest to pay a variable rate of interest based on a spread to the one-month London Interbank Offered Rate ("LIBOR") and to receive a fixed rate of interest equal to that of the retail brokered CD (hedged item). Under the swap agreements, Southwest paid variable interest payments on a monthly basis; fixed interest payments received on the maturity date of the swap agreement. Amounts paid or received under these swap agreements accounted for on an accrual basis and recorded as an adjustment of interest expense of the hedged item. The net cash flows related to fair value hedges decreased interest expense on certificates of deposit by \$284,000 through June 30, 2008; no additional decrease incurred during third quarter. There are no interest rate swaps outstanding at September 30, 2008.

As of December 31, 2007, Southwest's derivative portfolio had gross unrealized gains of \$64,000, which were included in other liabilities, a weighted average floating pay rate of 5.04%, a weighted average fixed receive rate of 5.32%, and a weighted average maturity of 2 months.

## NOTE 9: SUBORDINATED DEBENTURES

At September 30, 2008, Southwest had the following issues of trust preferred securities outstanding and subordinated debentures owed to the Trusts.

	Subordinated Debentures Owed to Trusts	Trust Preferred Securities of the Trusts	Interest Rates at September 30, 2008	Final Maturity Date
<i>(Dollars in thousands)</i>				
OKSB Statutory I	\$ 20,619	\$ 20,000	6.58%	June 26, 2033
SBI Capital Trust II	25,774	25,000	5.64%	October 7, 2033
Southwest Capital Trust II	35,570	34,500	10.50%	September 15, 2038
	<u>\$ 81,963</u>	<u>\$ 79,500</u>		

## Table of Contents

On June 26, 2003, Southwest's subsidiary, OKSB Statutory Trust I sold to investors in a private placement offering \$20.0 million of adjustable rate trust preferred securities (the "OKSB Trust Preferred"). The OKSB Trust Preferred bear interest, adjustable quarterly, at 90-day London Interbank Offered Rate ("LIBOR") plus 3.10%. In addition to these adjustable rate securities, OKSB Statutory Trust I sold \$0.6 million of trust common equity to Southwest. The aggregate proceeds of \$20.6 million were used to purchase an equal principal amount of adjustable rate subordinated debentures of Southwest that bear interest, adjustable quarterly, at 90-day LIBOR plus 3.10% (the "OKSB Subordinated Debentures").

On October 14, 2003, Southwest's subsidiary, SBI Capital Trust II sold to investors in a private placement offering \$25.0 million of adjustable rate trust preferred securities (the "SBI II Trust Preferred"). The SBI II Trust Preferred bear interest, adjustable quarterly, at 90-day LIBOR plus 2.85%. In addition to these adjustable rate securities, SBI Capital Trust II sold \$0.8 million of trust common equity to Southwest. The aggregate proceeds of \$25.8 million were used to purchase an equal principal amount of adjustable rate subordinated debentures of Southwest that bear interest, adjustable quarterly, at 90-day LIBOR plus 2.85% (the "SBI II Subordinated Debentures").

In July 2008, Southwest's subsidiary, Southwest Capital Trust II, sold to investors in a public offering \$34.5 million of 10.50% trust preferred securities (the "OKSBP Trust Preferred"). In additions to these trust preferred securities, Southwest Capital Trust II sold \$1.1 million of trust common equity to Southwest. The aggregate proceeds of \$35.6 million were used to purchase an equal amount of 10.50% subordinated debentures of Southwest (the "OKSBP Subordinated Debentures").

At September 30, 2008, Southwest had an aggregate of \$82.0 million of subordinated debentures outstanding and had an asset of \$2.5 million representing its total investment in the common equity issued by the Trusts. The sole assets of the Trusts are the subordinated debentures and the liabilities of the Trusts are the OKSB Trust Preferred, the SBI II Trust Preferred, and the OKSBP Trust Preferred. Southwest has, through various contractual arrangements, unconditionally guaranteed payment of all obligations of the Trusts with respect to the OKSB Trust Preferred, the SBI II Trust Preferred, and the OKSBP Trust Preferred.

The OKSB Trust Preferred, the OKSB Subordinated Debentures, the SBI II Trust Preferred, the SBI II Subordinated Debentures, the OKSBP Trust Preferred, and the OKSBP Subordinated Debentures mature at or near the thirtieth anniversary date of their issuance. However, if certain conditions are met, the OKSB Trust Preferred and the OKSB Subordinated Debentures and the SBI II Trust Preferred and the SBI II Subordinated Debentures may be called at Southwest's discretion with thirty days notice, and the maturity dates of the OKSBP Trust Preferred and the OKSBP Subordinated Debentures may be shortened at Southwest's discretion to a date not earlier than September 15, 2013.

### **NOTE 10: SHARE-BASED COMPENSATION**

The Southwest Bancorp, Inc. 1994 Stock Option Plan and 1999 Stock Option Plan (the "Stock Plans") provide directors and selected key employees with the opportunity to acquire common stock through grants of options exercisable for common stock and other stock based awards.

The Southwest Bancorp, Inc. 2008 Stock Based Award Plan (the "2008 Stock Plan") was approved at the annual shareholders' meeting held April 24, 2008. The 2008 Stock Plan replaces the Southwest Bancorp, Inc. 1999 Stock Option Plan, as amended (the "1999 Plan"). Options issued under the 1999 Plan and Southwest's 1994 Stock Option Plan will continue in effect and will be subject to the requirements of those plans, but no new options will be granted under them. The 2008 Stock Plan authorizes awards for up to 800,000 shares of Southwest common stock over its ten-year term.

#### **Stock Options**

The exercise price of all stock options granted under the Stock Plans is the fair market value on the grant date. Depending upon terms of the stock option agreements, stock options generally become exercisable on an annual basis and expire from five to ten years after the date of grant.

In accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), Southwest recorded \$200,000 of share-based compensation expense for the nine month period ended September 30, 2008 related to outstanding stock options.

The share-based compensation is calculated using the accrual method, which treats each vesting tranche as a separate award and amortizes expense evenly from grant date to vest date. This charge had no impact on Southwest's reported cash flows. The cumulative deferred tax asset that was recorded related to compensation expense was approximately \$177,000.

## Table of Contents

For purposes of the disclosure in the following table and for purposes of determining estimated fair value under SFAS No. 123(R), Southwest has computed the estimated fair values of all share-based compensation using the Black-Scholes option pricing model and has applied the assumptions set forth in the table. Southwest will continue to monitor the actual expected term of stock options and will adjust the expected term used in the valuation process when the difference is determined to be significant.

Share-based employee compensation expense for stock options under the fair value method was measured using the following quarterly assumptions for options granted during the respective quarters. No options were granted in second or third quarter of 2008.

	<b>Risk-Free Interest Rate</b>	<b>Expected Dividend Yield</b>	<b>Expected Volatility</b>	<b>Expected Option Term (in years)</b>
Third quarter 2008	N/A	N/A	N/A	N/A
Second quarter 2008	N/A	N/A	N/A	N/A
First quarter 2008	2.30%	2.24%	34.36%	3.00
Third quarter 2007	4.55%	1.81%	29.20%	2.50
Second quarter 2007	4.73%	1.48%	29.60%	2.50
First quarter 2007	4.51%	1.40%	29.58%	2.50

A summary of options outstanding under the Stock Plans as of September 30, 2008, and changes during the nine month period then ended, is presented below.

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Aggregate</b>	
			<b>Remaining Contractual Life (Years)</b>	<b>Intrinsic Value (dollars in thousands)</b>
Outstanding at December 31, 2007	883,770	\$15.56		
Granted	5,000	16.93		
Exercised	(146,058)	10.45		
Canceled/expired	(900)	5.88		
Outstanding at September 30, 2008	741,812	\$16.59	1.86	\$3,208
Total exercisable at September 30, 2008	650,202	\$16.63	1.74	\$2,680

The weighted average grant date fair value of options granted during the nine month period ended September 30, 2008 was \$3.71 per share. The total intrinsic value of options exercised during the nine month period was \$959,000; the amount of cash received from those exercises was \$1.5 million. All shares issued upon exercise of options during the nine month period ended September 30, 2008 were issued out of treasury shares. The fair value of options that became vested during the nine month period was \$472,000.

## Table of Contents

A summary of the status of Southwest's nonvested stock options as of September 30, 2008 and changes during the nine month period then ended is presented below.

	<b>Shares Issuable Upon Exercise of Options</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested Balance at December 31, 2007	178,100	\$4.56
Granted	5,000	3.71
Vested	(90,590)	5.21
Forfeited	(900)	2.12
Nonvested Balance at September 30, 2008	91,610	\$3.90

As of September 30, 2008, there was \$70,000 of total unrecognized compensation expense related to stock option arrangements granted under the Stock Plans. This unrecognized expense is expected to be recognized during the next two years.

### **Restricted Stock**

Restricted shares granted as of September 30, 2008 and 2007 were 52,192 and 32,978, respectively. For the nine months ended September 30, 2008, Southwest recognized \$133,000 in compensation expense, net of tax, related to all restricted shares outstanding; \$101,000 in compensation expense, net of tax, was recorded in the first nine months of 2007. As of September 30, 2008, there was \$440,000 of total unrecognized compensation expense related to restricted shares granted under the Stock Plans. This unrecognized expense is expected to be recognized during the next three years.

The restricted stock grants vest one-third on the first, second and third anniversaries of the date of grant provided the director or employee remains a director or employee of Southwest or a subsidiary on those dates. The restrictions on the shares expire three years after the award date provided that all restrictions will end, and the awards will be fully vested, upon a change in control of Southwest or the permanent and total disability or death of the participant. Southwest will continue to recognize compensation expense over the restricted periods.

### **NOTE 11: TAXES ON INCOME**

In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, the balance of unrecognized tax benefits at September 30, 2008 was \$2.5 million (net of federal benefit on state issues), that if recognized, would favorably affect the effective tax rate in any future periods.

Southwest recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. For the third quarter of the year, an additional \$134,000 has been accrued in interest and penalties. Southwest had approximately \$1.8 million accrued for interest and penalties at September 30, 2008.

Southwest and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, Southwest is no longer subject to U.S. federal or state tax examinations for years before 2003.

Southwest is currently under audit by the State of Oklahoma for the 2002 and 2003 tax years. During the quarter, Southwest received a Notice of Assessment from the Oklahoma Tax Commission. A formal Notice of Protest was filed on October 6, 2008. It is possible that a reduction in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

### **NOTE 12: EARNINGS PER SHARE**

Basic earnings per share is computed based upon net income divided by the weighted average number of shares outstanding during each period. Diluted earnings per share is computed based upon net income divided by the weighted average number of shares outstanding during each period adjusted for the effect of dilutive potential shares calculated using the treasury method. At September 30, 2008 and 2007, there were 403,950 and 395,617 antidilutive options to purchase common shares, respectively.

## [Table of Contents](#)

The following is a reconciliation of the shares used in the calculations of basic and diluted earnings per share:

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding	14,527,893	14,335,008	14,489,347	14,299,534
Effect of dilutive securities	148,189	277,724	165,316	322,867
For calculation of diluted earnings per share	14,676,082	14,612,732	14,654,663	14,622,401

### NOTE 13: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, Southwest makes use of a number of different financial instruments to help meet the financial needs of its customers. In accordance with generally accepted accounting principles, these transactions are not presented in the accompanying consolidated financial statements and are referred to as off-balance sheet instruments. These transactions and activities include commitments to extend lines of commercial and real estate mortgage credit, and standby and commercial letters of credit.

The following table provides a summary of Southwest's off-balance sheet financial instruments:

	September 30, 2008	December 31, 2007
<i>(Dollars in thousands)</i>		
Commitments to extend commercial and real estate mortgage credit	\$672,425	\$861,851
Standby and commercial letters of credit	8,041	18,580
Total	\$680,466	\$880,431

A loan commitment is a binding contract to lend up to a maximum amount for a specified period of time provided there is no violation of any financial, economic, or other terms of the contract. A standby letter of credit obligates Southwest to honor a financial commitment to a third party should Southwest's customer fail to perform. Many loan commitments and most standby letters of credit expire unfunded, and, therefore, commitments do not necessarily represent future outstanding loans or payments. Loan commitments and letters of credit are made under normal credit terms, including interest rates and collateral prevailing at the time, and usually require the payment of a fee by the customer. Commercial letters of credit are commitments generally issued to finance the movement of goods between buyers and sellers. Southwest's exposure to credit loss, assuming commitments are funded, in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. Please see Note 6, "Allowance for Loans Losses and Reserve for Unfunded Loan Commitments".

### NOTE 14: OPERATING SEGMENTS

Southwest operates six principal segments: Oklahoma Banking, Texas Banking, Kansas Banking, Other States Banking, Secondary Market, and Other Operations. The Oklahoma Banking segment, the Texas Banking segment, and the Kansas Banking segment provide deposit and lending services to customers in the states of Oklahoma, Texas, and Kansas. The Other States Banking segment provides lending services to customers outside Oklahoma, Texas, and Kansas. The Secondary Market segment consists of two operating units: one that provides student lending services to post-secondary students in Oklahoma and several other states and the other that provides residential mortgage lending services to customers in Oklahoma, Texas, and Kansas. Other Operations includes Southwest's funds management unit.

The primary purpose of the funds management unit is to manage Southwest's overall internal liquidity needs and interest rate risk. Each segment borrows funds from and provides funds to the funds management unit as needed to support its operations. The value of funds provided to and the cost of funds borrowed from the funds management unit by each segment are internally priced at rates that approximate market rates for funds with similar duration. The yield curve used in the funds transfer pricing curve is a blend of rates based on the volume usage of retail and brokered certificates of deposit, capital market certificates of deposit and Federal Home Loan Bank advances.

The Other Operations segment also includes SNB Investor Services, corporate investments, consulting subsidiaries, and nonbank cash machine operations; these operations are discussed more fully in the 2007 Annual Report.

Southwest identifies reportable segments by type of service provided and geographic location. Operating results are adjusted for borrowings, allocated service costs, and management fees.

## Table of Contents

The accounting policies of each reportable segment are the same as those of Southwest. Expenses for consolidated back-office operations are allocated to operating segments based on estimated uses of those services. General overhead expenses such as executive administration, accounting, and internal audit are allocated based on the direct expense and/or deposit and loan volumes of the operating segment. Income tax expense for the operating segments is calculated at statutory rates. The Other Operations segment records the tax expense or benefit necessary to reconcile to the consolidated financial statements.

Capital is assigned to each of the segments using a risk-based capital pricing methodology that assigns capital ratios by asset, deposit, or revenue category based on Credit Risk, Interest Rate Risk, Market Risk, Operational Risk, and Liquidity Risk.

In the first quarter of 2008, Southwest changed its segment disclosures to report Texas, Kansas and Other States separately. Portfolio loans are allocated based upon the state of the borrower, or the location of the real estate in the case of real estate loans. Loans included in the "Other States Banking" segment are portfolio loans attributable to thirty-six states other than Oklahoma, Texas, or Kansas, and primarily consist of healthcare and commercial real estate credits. These out of state loans are administered by offices in Oklahoma, Texas, or Kansas. For comparability, the amounts for third quarter 2007 and for the nine months ended September 30, 2007 have been restated using the same geographical allocation method.

The following table summarizes financial results by operating segment:

	For the Three Months Ended September 30, 2008						
<i>(Dollars in thousands)</i>	Oklahoma Banking	Texas Banking	Kansas Banking	Other States Banking	Secondary Market	Other Operations	Total Company
Net interest income	\$12,603	\$8,228	\$ 2,361	\$2,578	\$ 343	\$(2,925)	\$23,188
Provision for loan losses	1,190	2,300	2,956	409	—	—	6,855
Noninterest income	2,124	709	(103)	56	454	822	4,062
Noninterest expenses	7,984	4,310	1,207	743	1,047	1,242	16,533
Income (loss) before taxes	5,553	2,327	(1,905)	1,482	(250)	(3,345)	3,862
Taxes on income	2,258	995	(569)	634	(101)	(1,661)	1,556
Net income (loss)	\$ 3,295	\$1,332	\$(1,336)	\$ 848	\$ (149)	\$(1,684)	\$ 2,306

	For the Three Months Ended September 30, 2007						
<i>(Dollars in thousands)</i>	Oklahoma Banking	Texas Banking	Kansas Banking	Other States Banking	Secondary Market	Other Operations	Total Company
Net interest income	\$12,253	\$7,016	\$2,805	\$1,743	\$190	\$ (301)	\$23,706
Provision for loan losses	241	1,062	549	297	—	—	2,149
Noninterest income	1,925	385	330	51	769	166	3,626
Noninterest expenses	7,686	3,610	2,395	282	882	1,307	16,162
Income (loss) before taxes	6,251	2,729	191	1,215	77	(1,442)	9,021
Taxes on income	2,492	1,091	(52)	447	44	(517)	3,505
Net income (loss)	\$ 3,759	\$1,638	\$ 243	\$ 768	\$ 33	\$ (925)	\$ 5,516

[Table of Contents](#)

For the Nine Months Ended September 30, 2008

<i>(Dollars in thousands)</i>	Oklahoma Banking	Texas Banking	Kansas Banking	Other States Banking	Secondary Market	Other Operations*	Total Company
Net interest income	\$ 35,562	\$ 24,528	\$ 7,426	\$ 7,256	\$ 1,085	\$ (8,552)	\$ 67,305
Provision for loan losses	3,358	4,463	3,979	481	—	—	12,281
Noninterest income	6,351	1,479	107	129	1,211	3,432	12,709
Noninterest expenses	24,192	12,396	4,781	2,166	2,764	2,396	48,695
Income (loss) before taxes	14,363	9,148	(1,227)	4,738	(468)	(7,516)	19,038
Taxes on income	5,641	3,633	(309)	1,894	(185)	(3,312)	7,362
Net income (loss)	\$ 8,722	\$ 5,515	\$ (918)	\$ 2,844	\$ (283)	\$ (4,204)	\$ 11,676

\* Includes externally generated revenue of \$7.2 million, primarily from consulting services, and an internally generated loss of \$12.3 million from the funds management unit

Fixed asset expenditures	\$ 1,555	\$ 613	\$ 63	\$ 29	\$ —	\$ 793	\$ 3,053
Total loans at period end	962,611	892,998	288,268	296,214	72,248	—	2,512,339
Total assets at period end	971,055	890,741	295,303	294,784	77,498	302,990	2,832,371
Total deposits at period end	1,345,710	136,694	148,269	—	2,802	565,244	2,198,719

For the Nine Months Ended September 30, 2007

<i>(Dollars in thousands)</i>	Oklahoma Banking	Texas Banking	Kansas Banking	Other States Banking	Secondary Market	Other Operations	Total Company
Net interest income	\$ 36,624	\$ 19,603	\$ 7,269	\$ 5,034	\$ 1,392	\$ (861)	\$ 69,061
Provision for loan losses	1,423	3,106	990	598	—	—	6,117
Noninterest income	7,437	1,048	436	78	2,826	537	12,362
Noninterest expenses	21,808	9,661	5,596	1,367	2,623	6,746	47,801
Income (loss) before taxes	20,830	7,884	1,119	3,147	1,595	(7,070)	27,505
Taxes on income	7,973	3,033	342	1,211	612	(2,523)	10,648
Net income (loss)	\$ 12,857	\$ 4,851	\$ 777	\$ 1,936	\$ 983	\$ (4,547)	\$ 16,857

\* Includes externally generated revenue of \$3.0 million, primarily from consulting services, and an internally generated loss of \$3.3 million from the funds management unit

Fixed asset expenditures	\$ 933	\$ 506	\$ 401	\$ —	\$ 57	\$ 446	\$ 2,343
Total loans at period end	844,860	644,750	251,131	192,482	78,417	—	2,011,640
Total assets at period end	850,933	645,745	265,551	195,401	84,798	344,424	2,386,852
Total deposits at period end	1,265,130	118,784	119,031	—	3,275	406,499	1,912,719

**NOTE 15: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED**

In December 2007, the Financial Accounting Standards Board revised Statement No. 141, *Business Combinations (Revised 2007)* (“SFAS No. 141(R)”). SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141(R) requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. The fair value approach replaces the cost-allocation process required under SFAS No. 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS No. 141(R) requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS No. 141. Under SFAS No. 141(R), nearly all acquired assets and liabilities assumed are required to be recorded at fair value at the acquisition date, including loans. This will eliminate separate recognition of the acquired allowance for loan losses on the acquirer’s balance sheet as credit related factors will be incorporated directly into the fair value of the loans recorded at the acquisition date. SFAS No. 141(R) is expected to have an impact on Southwest’s accounting for business combinations closing on or after January 1, 2009.

## Table of Contents

In December 2007, the Financial Accounting Standards Board issued Statement No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51* ("SFAS No. 160"). SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for Southwest on January 1, 2009 and is not expected to have a significant impact on Southwest's financial statements.

In March 2008, the Financial Accounting Standards Board issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS No. 161 is effective for Southwest on January 1, 2009 and is not expected to have a significant impact on Southwest's financial statements.

In May 2008, the Financial Accounting Standards Board issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. Southwest will adopt the provisions of SFAS No. 162 when effective but does not anticipate adoption will have a significant impact on Southwest's financial statements.

### **NOTE 16: COMMITMENTS AND CONTINGENCIES**

In the first quarter of 2007, Southwest recorded a charge of approximately \$2.5 million representing cash due from certain ATMs owned by Cash Source, Inc. ("CSI"), a subsidiary of Stillwater National, that an armored transportation company failed to deliver. Stillwater National and CSI have filed legal actions against the armored transportation company, its owners, and others for the recovery of their funds and damages, have notified law enforcement and bank regulatory authorities and their insurers, and continue to pursue means of recovery. The 2008 financial statements reflect related legal expenses incurred by Southwest in the first nine months of approximately \$324,000 and approximately \$785,000 during the year 2007 of which \$720,000 was incurred in the first nine months of 2007. Southwest filed its proof of loss with the insurer on August 6, 2007, which the insurer denied in April 2008. Stillwater National and CSI are pursuing various options for recovery.

### **NOTE 17: VISA USA SHARES**

Stillwater National and other VISA USA member banks are obligated to share in costs resulting from litigation against VISA USA. In March 2008, Visa, Inc. (Visa) completed an initial public offering. This transaction allowed Visa to place part of the cash proceeds into an escrow account that will be utilized to pay litigation and settlement expenses. Stillwater National previously estimated the settlement costs of such litigation and recorded its proportionate share of that estimated liability, offset by its proportionate share of the escrow account established by Visa.

As a result of Visa's public offering, Stillwater National recorded a gain of \$1.2 million before tax expense for the redemption for cash of 29,212 shares of VISA USA shares owned by Stillwater National and carried at a zero dollar basis. Stillwater National owns an additional 46,348 shares of Class B Visa stock carried at a zero dollar basis. These remaining shares will be held in escrow by Visa until the later of the third anniversary of the public offering date or the final resolution of the litigation discussed above.

**SOUTHWEST BANCORP, INC.**  
**Management's Discussion and Analysis**  
**of Financial Condition and Results of Operations**

*Forward-Looking Statements.* This management's discussion and analysis of financial condition and results of operations, the notes to Southwest's unaudited consolidated financial statements, and other portions of this report include forward-looking statements such as: statements of Southwest's goals, intentions, and expectations; estimates of risks and of future costs and benefits; expectations regarding future financial performance of Southwest and its operating segments; assessments of loan quality, probable loan losses, and the amount and timing of loan growth, performing and problem loan payoffs; liquidity, contractual obligations, off-balance sheet risk, and market or interest rate risk; and statements of Southwest's ability to achieve financial and other goals. These forward-looking statements are subject to significant uncertainties because they are based upon: the amount and timing of future changes in interest rates, market behavior, and other economic conditions; future laws, regulations, and accounting principles; and a variety of other matters. These other matters, include, among other things, the direct and indirect effects of the recent unsettled national and international economic conditions on interest rates, credit quality, loan demand, liquidity, and monetary and supervisory policies of banking regulators. Because of these uncertainties, the actual future results may be materially different from the results indicated by these forward-looking statements. In addition, Southwest's past growth and performance do not necessarily indicate its future results.

Management's discussion and analysis of Southwest's consolidated financial condition and results of operations should be read in conjunction with Southwest's unaudited consolidated financial statements and the accompanying notes.

**GENERAL**

Southwest Bancorp, Inc. ("Southwest") is a financial holding company for Stillwater National Bank and Trust Company ("Stillwater National"), SNB Bank of Wichita ("SNB Wichita"), Bank of Kansas ("SNB Kansas"), Healthcare Strategic Support, Inc. ("HSSI"), and Business Consulting Group, Inc. ("BCG"). Through its subsidiaries, Southwest offers commercial and consumer lending, deposit and investment services, and specialized cash management, consulting and other financial services from offices in Oklahoma City, Stillwater, Tulsa, Edmond, and Chickasha, Oklahoma; Dallas, Austin, San Antonio, Houston, and Tilden, Texas; and Hutchinson, South Hutchinson, Kansas City, and Wichita, Kansas; and on the Internet, through *SNB DirectBanker*®.

Southwest was organized in 1981 as the holding company for Stillwater National, which was chartered in 1894. Southwest has established and pursued a strategy of independent operation for the benefit of all of its shareholders. Southwest became a public company in late 1993 with assets of approximately \$434 million. At September 30, 2008, Southwest had total assets of \$2.8 billion, deposits of \$2.2 billion, and shareholders' equity of \$226.1 million.

On September 22, 2008, Southwest announced the planned merger of SNB Wichita with SNB Kansas. This merger, which is subject to regulatory approval, is intended to create more convenience for customers and operational efficiencies for Southwest.

Southwest's banking philosophy has led to the development of a line of deposit, lending, and other financial products that respond to professional and commercial customer needs for speed, efficiency, and information, and complement more traditional banking products. Such specialized financial services include integrated document imaging and cash management services designed to help our customers in the healthcare industry and other record-intensive enterprises operate more efficiently, and management consulting services through Southwest's management consulting subsidiaries: HSSI, which serves physicians, hospitals, and healthcare groups, and BCG, which serves commercial enterprises. Information regarding Southwest is available on line at [www.oksb.com](http://www.oksb.com). Information regarding the products and services of Southwest's financial institution subsidiaries is available on line at [www.banksnb.com](http://www.banksnb.com), [www.snbwichita.com](http://www.snbwichita.com), and [www.bankofkansas.com](http://www.bankofkansas.com). The information on these websites is not a part of this report on Form 10-Q.

Southwest's strategic focus includes expansion in carefully selected geographic markets. This geographic expansion is based on identification of markets with concentrations of customers in Southwest's traditional areas of expertise (healthcare and health professionals, businesses and their managers and owners, and commercial and commercial real estate lending) and makes use of traditional and specialized financial services.

Southwest's expansion outside Oklahoma began in 2002. At September 30, 2008, the Texas Banking segment accounted for \$893.0 million in loans, the Kansas Banking segment accounted for \$288.3 million in loans and the Other States Banking Segment accounted for \$296.2 million in loans. In total, these offices accounted for 61% of portfolio loans and 59% of total

## Table of Contents

loans, which include loans held for sale. During the first nine months of 2008, these segments produced \$7.4 million in net income (64% of the consolidated total), \$208.0 million in loan growth, and \$196.0 million in asset growth.

The Oklahoma Banking segment accounted for \$8.7 million, or 75%, of consolidated year-to-date net income. Outstanding loans in the Oklahoma Banking Segment totaled \$962.6 million at quarter end and increased by \$86.5 million, or 10%, from December 31, 2007.

Southwest offers products to the student and residential mortgage lending markets. These operations comprise the Secondary Market business segment. During the first nine months of 2008, this segment incurred a net loss of \$283,000 as a result of decreased noninterest income and reduced margin. Secondary Market loans and assets increased \$6.0 million, or 9%, and \$5.7 million, or 8%, respectively, to \$72.2 million and \$77.5 million. Southwest engages in residential mortgage lending, but residential mortgages have not been a significant element of Southwest's strategy. Please see "Financial Condition: Loans" below for additional information.

For additional information on Southwest's operating segments, please see Note 14, "Operating Segments", in the Notes to Unaudited Consolidated Financial Statements. The total of net income of the segments discussed above does not equal consolidated net income for the first nine months of 2008 due to losses from the Other Operations segment, which provides funding and liquidity services to the rest of the organization.

## **FINANCIAL CONDITION**

### **Investment Securities**

Southwest's investment security portfolio decreased \$14.9 million, or 6%, from \$256.6 million at December 31, 2007, to \$241.7 million at September 30, 2008. The decrease is primarily the result of a \$103.0 million (54%) decrease in U.S. government and agency securities, resulting from increased early redemption of callable agency securities in reaction to a significant decline in market interest rates, offset in part by an \$87.2 million (227%) increase in mortgage backed securities, and a \$1.5 million (16%) increase in tax-exempt securities during the first nine months of 2008.

### **Loans**

Total loans, including loans held for sale, were \$2.5 billion at September 30, 2008, a 14% increase from \$2.2 billion at December 31, 2007. Commercial real estate mortgage, one-to-four family residential mortgage, commercial, and student loans increased, while real estate construction and other consumer loans decreased.

The following table presents the trends in the composition of the loan portfolio at the dates indicated:

<i>(Dollars in thousands)</i>	<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Real estate mortgage</b>				
Commercial	\$1,077,601	\$ 750,047	\$327,554	43.67%
One-to-four family residential	116,270	111,085	5,185	4.67
<b>Real estate construction</b>	<b>634,339</b>	<b>724,929</b>	<b>(90,590)</b>	<b>(12.50)</b>
Commercial	574,087	521,501	52,586	10.08
<b>Installment and consumer</b>				
Student loans	67,610	61,555	6,055	9.84
Other	42,432	42,715	(283)	(0.66)
<b>Total loans</b>	<b>\$2,512,339</b>	<b>\$2,211,832</b>	<b>\$300,507</b>	

## Table of Contents

The composition of loans held for sale and reconciliation to total loans is shown in the following table.

<i>(Dollars in thousands)</i>	<b>September 30, 2008</b>	<b>December 31, 2007</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Loans held for sale:</b>				
Student loans	\$ 67,610	\$ 61,555	\$ 6,055	9.84%
One-to-four family residential	3,500	3,442	58	1.69
Other loans held for sale	1,138	1,278	(140)	(10.95)
<b>Total loans held for sale</b>	<b>72,248</b>	<b>66,275</b>	<b>5,973</b>	
Portfolio loans	2,440,091	2,145,557	294,534	13.73
<b>Total loans</b>	<b>\$2,512,339</b>	<b>\$2,211,832</b>	<b>\$300,507</b>	

Subprime and indirect lending have never been a part of Southwest's business strategy and its exposure to subprime and indirect loans and subprime lenders is minimal. One-to-four family mortgages account for less than 5% of total loans and one-to-four family construction loans account for less than 4% of total loans. Southwest monitors credits to verify the exposure to indirect subprime lending on an ongoing basis.

Management determines the appropriate level of the allowance for loan losses using an established methodology. (See Note 6: "Allowance for Loan Losses and Reserve for Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements.) At September 30, 2008, the allowance for loan losses was \$35.8 million, an increase of \$6.2 million, or 21%, from the allowance for loan losses at December 31, 2007. Changes in the amount of the allowance resulted from the application of the methodology, which is designed to estimate inherent losses on total loans in the portfolio, including those on nonperforming loans. The allowance was 1.47% and 1.38% of total portfolio loans at September 30, 2008 and December 31, 2007, respectively. Management believes the amount of the allowance is appropriate.

At September 30, 2008, the allowance for loan losses was \$35.8 million, or 56.07% of nonperforming loans, compared to \$29.6 million, or 100.04% of nonperforming loans, at December 31, 2007. (See "Results of Operations-Provision for Loan Losses.") Nonaccrual loans, which comprise the majority of nonperforming assets, were \$61.6 million as of September 30, 2008, an increase of \$42.0 million or 215% from year end. These loans are carried at their estimated collectible amounts and no longer accrue interest. The increase in nonaccrual loans is primarily due to two collateral dependent lending relationships that are secured by real estate. The associated loss reserves were established based on the estimated fair value of the supporting collateral.

Performing loans considered potential problem loans (loans that are not included in the past due, nonaccrual or restructured categories, but for which known information about possible credit problems cause management to have concerns as to the ability of the borrowers to comply with the present loan repayment terms and which may become problems in the future) amounted to approximately \$86.1 million at September 30, 2008, compared to \$61.6 million at December 31, 2007. Loans may be monitored by management and reported as potential problem loans for an extended period of time during which management continues to be uncertain as to the ability of certain borrowers to comply with the present loan repayment terms. These loans are subject to continuing management attention and are considered by management in determining the level of the allowance for loan losses.

At September 30, 2008, the reserve for unfunded loan commitments was \$3.3 million, a \$249,000, or 8%, increase from the amount at December 31, 2007. Management believes the amount of the reserve is appropriate and the increased amount is the result of methodology application. (See Note 6: "Allowance for Loan Losses and Reserve for Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements.)

### **Deposits and Other Borrowings**

Southwest's deposits were \$2.2 billion at September 30, 2008 and \$2.1 billion at December 31, 2007. Increases occurred in all types of deposit accounts.

## Table of Contents

The following table presents the trends in the composition of deposits at the dates indicated:

<i>(Dollars in thousands)</i>	September 30, 2008	December 31, 2007	\$ Change	% Change
Noninterest-bearing demand	\$ 280,453	\$ 257,067	\$ 23,386	9.10%
Interest-bearing demand	70,471	63,323	7,148	11.29
Money market accounts	554,357	541,950	12,407	2.29
Savings accounts	14,452	13,032	1,420	10.90
Time deposits of \$100,000 or more	731,773	690,985	40,788	5.90
Other time deposits	547,213	492,222	54,991	11.17
Total deposits	<u>\$ 2,198,719</u>	<u>\$ 2,058,579</u>	<u>\$ 140,140</u>	

Stillwater National has substantial unused borrowing availability in the form of unsecured brokered certificate of deposits from Merrill Lynch & Co., Citigroup Global Markets, Inc., Wachovia Securities LLC, UBS Financial Services, Inc., RBC Dain Rauscher, and Morgan Stanley & Co., Inc., in connection with its retail certificate of deposit program. At September 30, 2008, \$333.8 million in these retail certificates of deposit were included in time deposits of \$100,000 or more, a decrease of \$1.2 million, or less than 1%, from year-end 2007.

Included in time deposits of \$100,000 or more in the above table, Stillwater National has other brokered certificates of deposit totaling \$300,000 as of September 30, 2008 and \$600,000 as of December 31, 2007.

In addition, Stillwater National has brokered certificates of deposit issued in amounts under \$100,000 totaling \$5.2 million and \$681,000 as of September 30, 2008, and December 31, 2007, respectively, included in other time deposits in the above table.

Other borrowings, which consist of federal funds purchased and repurchase agreements, increased \$80.8 million, or 37%, to \$299.1 million during the first nine months of 2008. The increase reflects the changes in the need for funding based on loan and deposit activities for the period.

### **Shareholders' Equity**

Shareholders' equity increased \$8.5 million, or 4%, due primarily to earnings of \$11.7 million for the first nine months of 2008, offset by dividends declared totaling \$4.1 million. Issuance of common stock through the dividend reinvestment plan, the employee stock purchase plan, and share based compensation plans, including tax benefits realized, contributed an additional \$2.4 million to shareholders' equity in the first nine months of 2008. Net unrealized holding gains and losses on available for sale investment securities (net of tax) decreased to a loss of \$1.1 million at September 30, 2008 compared to a gain of \$408,000 at December 31, 2007.

At September 30, 2008, Southwest, Stillwater National, SNB Wichita, and SNB Kansas continued to exceed all applicable regulatory capital requirements. See "Capital Resources" on page 34.

### **RESULTS OF OPERATIONS**

#### *FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2008 and 2007*

Net income for the third quarter of 2008 of \$2.3 million represented a decrease of \$3.2 million, or 58%, from the \$5.5 million earned in the third quarter of 2007. Diluted earnings per share were \$0.16 compared to \$0.38, a 58% decrease. The decrease in quarterly net income was the result of a \$518,000, or 2%, decrease in net interest income, a \$4.7 million, or 219%, increase in the provision for loan losses, and a \$371,000, or 2%, increase in noninterest expense offset by a \$436,000, or 12%, increase in noninterest income, and a \$1.9 million, or 56%, decrease in income taxes.

The \$518,000 decrease in net interest income for the quarter was primarily due to the effects of decreased loan yields, which more than offset the favorable effects of increased loan volume. Provisions for loan losses are booked in the amounts necessary to increase the allowance for loan losses to an appropriate level at period end after charge-offs for the period. The necessary provision for third quarter of 2008 was \$4.7 million more than the provision required for third quarter of 2007.

## [Table of Contents](#)

(See Note 6: “Allowance for Loan Losses and Unfunded Loan Commitments”, in the Notes to Unaudited Consolidated Financial Statements and “Provision for Loan Losses and for Unfunded Loan Commitments” on page 33.)

The increase in noninterest income was mainly the result of increased service charges and fees of \$301,000 and increased other noninterest income of \$240,000, offset in part by lower gains on securities of \$158,000. The increase in noninterest expense consists of a \$454,000 increase in occupancy expense, a \$350,000 increase in other general and administrative expense, and a \$335,000 increase in FDIC and other insurance, offset in part by a \$585,000 decrease in the provision for unfunded loan commitments and a \$103,000 decrease in salaries and employee benefits.

On an operating segment basis, the decrease in net income was the result of a \$1.6 million reduction in net income from the Kansas Banking segment, a \$759,000 increased loss from the Other Operations segment, a \$464,000 reduction in net income from the Oklahoma Banking segment, a \$306,000 reduction in net income from the Texas Banking segment, and a \$182,000 reduction in net income from the Secondary Market segment, offset by an \$80,000 increase from the Other States Banking segment.

### Net Interest Income

<i>(Dollars in thousands)</i>	For the three months ended September 30,		\$ Change	% Change
	2008	2007		
<b>Interest income:</b>				
Loans	\$38,441	\$42,346	\$(3,905)	(9.22)%
<b>Investment securities:</b>				
U.S. government and agency obligations	818	2,196	(1,378)	(62.75)
Mortgage-backed securities	1,484	370	1,114	301.08
State and political subdivisions	98	85	13	15.29
Other securities	131	165	(34)	(20.61)
Other interest-earning assets	22	39	(17)	(43.59)
Total interest income	40,994	45,201	(4,207)	(9.31)
<b>Interest expense:</b>				
Interest-bearing demand deposits	147	82	65	79.27
Money market accounts	2,898	5,589	(2,691)	(48.15)
Savings accounts	17	24	(7)	(29.17)
Time deposits of \$100,000 or more	6,879	7,445	(566)	(7.60)
Other time deposits	4,457	5,684	(1,227)	(21.59)
Other borrowings	1,839	1,715	124	7.23
Subordinated debentures	1,569	956	613	64.12
Total interest expense	17,806	21,495	(3,689)	(17.16)
Net interest income	\$23,188	\$23,706	\$ (518)	(2.19)%

Net interest income is the difference between the interest income Southwest earns on its loans, investments, and other interest-earning assets, and the interest paid on interest-bearing liabilities, such as deposits and borrowings. Because different types of assets owned and liabilities issued by Southwest may react differently, and at different times, to changes in market interest rates, net interest income is affected by changes in market interest rates. When interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. Similarly, when interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase of market rates of interest could reduce net interest income.

Yields on Southwest’s interest-earning assets decreased 212 basis points, while the rates paid on Southwest’s interest-bearing liabilities decreased only 160 basis points, resulting in a decrease in the interest rate spread to 2.85% for the third quarter of 2008 from 3.37% for the third quarter of 2007. During the same periods, annualized net interest margin was 3.39% and 4.25%, respectively, and the ratio of average interest-earning assets to average interest-bearing liabilities decreased to 120.38% from 122.70%.

## Table of Contents

The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets, which was offset in part by the effects of a \$511.9 million, or 23%, increase in average interest-earning assets. Southwest's average loans increased \$560.1 million, or 29%; however, the related yield decreased to 6.15% for the third quarter of 2008 from 8.73% in 2007. During the same period, average investment securities decreased \$49.0 million, or 17%, and the related yield increased to 4.28% from 3.93% in 2007.

The decrease in total interest expense can be attributed to the decrease in rates paid on interest-bearing liabilities, offset in part by a \$459.9 million, or 25%, increase in average interest-bearing liabilities. Southwest's average total interest-bearing deposits increased \$299.8 million, or 19%; however, the related yield decreased to 3.00% for the third quarter of 2008 from 4.65% in 2007.

### UNAUDITED RATE VOLUME TABLE

The following table analyzes changes in interest income and interest expense of Southwest for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (i) changes in volume (changes in volume multiplied by the prior period's rate); and (ii) changes in rates (changes in rate multiplied by the prior period's volume). Changes in rate-volume (changes in rate multiplied by the changes in volume) are allocated between changes in rate and changes in volume in proportion to the relative contribution of each.

<i>(Dollars in thousands)</i>	For the three months ended September 30, 2008 vs. 2007		
	Increase Or (Decrease)	Due to Change In Average: Volume	Rate
<b>Interest earned on:</b>			
Loans receivable <sup>(1)</sup>	\$(3,905)	\$10,509	\$(14,414)
Investment securities	(285)	(513)	228
Other interest-earning assets	(17)	7	(24)
Total interest income	(4,207)	9,167	(13,374)
<b>Interest paid on:</b>			
Interest-bearing demand	65	19	46
Money market accounts	(2,691)	579	(3,270)
Savings accounts	(7)	2	(9)
Time deposits	(1,793)	2,549	(4,342)
Other borrowings	124	1,036	(912)
Subordinated debentures	613	675	(62)
Total interest expense	(3,689)	4,682	(8,371)
Net interest income	\$ (518)	\$ 4,485	\$ (5,003)

- (1) Average balances include nonaccrual loans. Fees included in interest income on loans receivable are not considered material. Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material.

[Table of Contents](#)

UNAUDITED AVERAGE BALANCES, YIELDS AND RATES

The following table sets forth average interest-earning assets and interest-bearing liabilities and the average yields and rates thereon for the periods indicated.

	For the three months ended September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
<b>Assets</b>						
Total loans	\$2,485,617	\$ 38,441	6.15%	\$1,925,468	\$ 42,346	8.73%
Investment securities	235,428	2,531	4.28	284,394	2,816	3.93
Other interest-earning assets	4,113	22	2.13	3,415	39	4.53
Total interest-earning assets	2,725,158	40,994	5.98	2,213,277	45,201	8.10
Other assets	72,624			72,780		
Total assets	<u>\$2,797,782</u>			<u>\$2,286,057</u>		
<b>Liabilities and shareholders' equity</b>						
Interest-bearing demand deposits	\$ 75,436	\$ 147	0.78%	\$ 62,667	\$ 82	0.52%
Money market accounts	545,520	2,898	2.11	489,514	5,589	4.53
Savings accounts	14,285	17	0.47	13,263	24	0.72
Time deposits	1,272,097	11,336	3.55	1,042,096	13,129	5.00
Total interest-bearing deposits	1,907,338	14,398	3.00	1,607,540	18,824	4.65
Other borrowings	275,365	1,839	2.66	149,952	1,715	4.54
Subordinated debentures	81,122	1,569	7.74	46,393	956	8.24
Total interest-bearing liabilities	2,263,825	17,806	3.13	1,803,885	21,495	4.73
Noninterest-bearing demand deposits	278,565			246,607		
Other liabilities	24,250			22,904		
Shareholders' equity	231,142			212,661		
Total liabilities and shareholders' equity	<u>\$2,797,782</u>			<u>\$2,286,057</u>		
Interest rate spread		<u>\$ 23,188</u>	2.85%		<u>\$ 23,706</u>	3.37%
Net interest margin (1)			3.39%			4.25%
Ratio of average interest-earning assets to average interest-bearing liabilities	<u>120.38%</u>			<u>122.70%</u>		

(1) Net interest margin = annualized net interest income / average interest-earning assets

## [Table of Contents](#)

### Noninterest Income

<i>(Dollars in thousands)</i>	For the three months ended September 30,		\$ Change	% Change
	2008	2007		
<b>Noninterest income:</b>				
ATM and bank card service charges	\$ 349	\$ 317	\$ 32	10.09%
Other service charges	2,059	1,710	349	20.41
Other fees	441	521	(80)	(15.36)
Other noninterest income	662	422	240	56.87
Gain on sales of loans:				
Student loan sales	208	353	(145)	(41.08)
Mortgage loan sales	262	165	97	58.79
All other loan sales	131	30	101	336.67
Gain (loss) on investment securities	(50)	108	(158)	(146.30)
Total noninterest income	<u>\$4,062</u>	<u>\$3,626</u>	<u>\$ 436</u>	<u>12.02%</u>

The increase in other service charges is the result of increases in commercial account service charges due to a reduction in earnings credits on balances caused by decreases in interest rates, while the increase in other noninterest income is primarily the result of reclassifying a \$248,000 loss on the sale of fixed assets to other noninterest expense.

Gain on sales of loans is a reflection of the activity in the student, mortgage and commercial lending areas discussed elsewhere in this report.

The decreased gain on investment securities is the result of recording a \$50,000 impairment on a private equity investment during the current quarter.

### Noninterest Expense

<i>(Dollars in thousands)</i>	For the three months ended September 30,		\$ Change	% Change
	2008	2007		
<b>Noninterest expense:</b>				
Salaries and employee benefits	\$ 8,863	\$ 8,966	\$(103)	(1.15)%
Occupancy	2,968	2,514	454	18.06
FDIC and other insurance	469	134	335	250.00
Other real estate (net)	(92)	(12)	(80)	(666.67)
Unfunded loan commitment reserve	90	675	(585)	(86.67)
Other general and administrative	4,235	3,885	350	9.01
Total noninterest expense	<u>\$16,533</u>	<u>\$16,162</u>	<u>\$ 371</u>	<u>2.30%</u>

Salaries and employee benefits decreased \$103,000 primarily as a result of a decrease in the number of employees offset in part by annual compensation increases. The number of full-time equivalent employees for the quarter decreased from 463 at the beginning of the quarter to 458 as of September 30, 2008. For the third quarter of 2007, the number of full-time equivalent employees for the quarter increased from 457 at the beginning of the quarter to 484 as of September 30, 2007.

Occupancy expense increased primarily due to increased amortization of maintenance contracts of \$275,000, increased building rental expense of \$74,000, increased depreciation expense of \$63,000, and increased repair expense of \$32,000.

Effective in 2007, under the Deposit Insurance Reform Act of 2005, depository institutions in all risk categories must pay FDIC insurance premiums. In conjunction with the premiums paid in 2007, Southwest utilized an assessment credit to substantially offset the FDIC insurance premiums. Current quarterly premiums are approximately \$343,000. Southwest expects substantial increases in its FDIC premium assessment in 2009.

## Table of Contents

The unfunded loan commitment reserve expense decreased \$585,000 due to a decline in the growth of commitments when compared to the same period of prior year.

Current period other general and administrative expenses includes increased fees to governmental guarantee agencies of \$126,000 and increased miscellaneous expenses of \$255,000, which includes the reclassified losses on sale of fixed assets of \$248,000.

### *FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007*

Net income for the nine months ended September 30, 2008 of \$11.7 million represented a decrease of \$5.2 million, or 31%, from the \$16.9 million earned for the nine months ended September 30, 2007. Diluted earnings per share were \$0.80 compared to \$1.15, a 30% decrease. The decline in net income was primarily the result of a \$1.8 million, or 3%, decrease in net interest income, a \$6.2 million, or 101%, increase in the provision for loan losses, and an \$894,000, or 2%, increase in noninterest expense offset by a \$3.3 million, or 31%, decrease in income taxes and a \$347,000, or 3%, increase in noninterest income.

The \$1.8 million decrease in net interest income was primarily due to the effects of decreased loan yields, which more than offset the favorable effects of increased loan volume. Provisions for loan losses are booked in the amounts necessary to increase the allowance for loan losses to an appropriate level at period end after charge-offs for the period. The necessary provision for 2008 was \$6.2 million more than the provision required for 2007. (See Note 6: "Allowance for Loan Losses and Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements and "Provision for Loan Losses and for Unfunded Loan Commitments" on page 33.)

On an operating segment basis, the decrease in net income was the result of a \$4.1 million decrease from the Oklahoma Banking segment, a \$1.7 million decrease from the Kansas Banking Segment, and a \$1.3 million decrease from the Secondary Market segment, offset by a \$908,000 increase from the Other States Banking segment, a \$664,000 increase from the Texas Banking segment, and \$343,000 reduction in the loss from the Other Operations segment.

### **Net Interest Income**

<i>(Dollars in thousands)</i>	<b>For the nine months ended September 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2008</b>	<b>2007</b>		
<b>Interest income:</b>				
Loans	\$116,536	\$122,210	\$(5,674)	(4.64)%
<b>Investment securities:</b>				
U.S. government and agency obligations	2,733	6,476	(3,743)	(57.80)
Mortgage-backed securities	3,828	996	2,832	284.34
State and political subdivisions	288	177	111	62.71
Other securities	444	693	(249)	(35.93)
Other interest-earning assets	70	219	(149)	(68.04)
<b>Total interest income</b>	<b>123,899</b>	<b>130,771</b>	<b>(6,872)</b>	<b>(5.25)</b>
<b>Interest expense:</b>				
Interest-bearing demand deposits	454	261	193	73.95
Money market accounts	10,488	14,294	(3,806)	(26.63)
Savings accounts	58	65	(7)	(10.77)
Time deposits of \$100,000 or more	21,795	23,358	(1,563)	(6.69)
Other time deposits	14,964	15,962	(998)	(6.25)
Other borrowings	5,755	4,935	820	16.62
Subordinated debentures	3,080	2,835	245	8.64
<b>Total interest expense</b>	<b>56,594</b>	<b>61,710</b>	<b>(5,116)</b>	<b>(8.29)</b>
<b>Net interest income</b>	<b>\$ 67,305</b>	<b>\$ 69,061</b>	<b>\$(1,756)</b>	<b>(2.54)%</b>

## [Table of Contents](#)

Net interest income is the difference between the interest income Southwest earns on its loans, investments, and other interest-earning assets, and the interest paid on interest-bearing liabilities, such as deposits and borrowings. Because different types of assets owned and liabilities issued by Southwest may react differently, and at different times, to changes in market interest rates, net interest income is affected by changes in market interest rates. When interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could reduce net interest income. Similarly, when interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a period, an increase of market rates of interest could reduce net interest income.

Yields on Southwest's interest-earning assets decreased 190 basis points, while the rates paid on Southwest's interest-bearing liabilities decreased only 129 basis points, resulting in a decrease in the interest rate spread to 2.83% for the first nine months of 2008 from 3.44% for the first nine months of 2007. During the same periods, annualized net interest margin was 3.41% and 4.31%, respectively, and the ratio of average interest-earning assets to average interest-bearing liabilities decreased to 120.10% from 122.68%.

The decrease in interest income was the result of a decrease in the yield earned on interest-earning assets, which was offset in part by the effects of a \$499.4 million, or 23%, increase in average interest-earning assets. Southwest's average loans increased \$545.1 million, or 29%; however, the related yield decreased to 6.48% for the first nine months of 2008 from 8.80% in 2007. During the same period, average investment securities decreased \$43.2 million, or 16%, and the related yield increased slightly to 4.15% from 4.01% in 2007.

The decrease in total interest expense can be attributed to the decrease in the rates paid on interest-bearing liabilities, offset in part by a \$453.4 million, or 26%, increase in average interest-bearing liabilities. Southwest's average total interest-bearing deposits increased \$315.4 million, or 20%; however, the related yield decreased to 3.41% for the third quarter of 2008 from 4.63% in 2007.

**UNAUDITED RATE VOLUME TABLE**

The following table analyzes changes in interest income and interest expense of Southwest for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (i) changes in volume (changes in volume multiplied by the prior period's rate); and (ii) changes in rates (changes in rate multiplied by the prior period's volume). Changes in rate-volume (changes in rate multiplied by the changes in volume) are allocated between changes in rate and changes in volume in proportion to the relative contribution of each.

	<b>For the nine months ended September 30, 2008 vs. 2007</b>		
	<b>Increase Or (Decrease)</b>	<b>Due to Change In Average: Volume</b>	<b>Rate</b>
<b>Interest earned on:</b>			
Loans receivable <sup>(1)</sup>	\$ (5,674)	\$ 30,912	\$ (36,586)
Investment securities	(1,049)	(1,333)	284
Other interest-earning assets	(149)	(73)	(76)
Total interest income	(6,872)	26,966	(33,838)
<b>Interest paid on:</b>			
Interest-bearing demand	193	64	129
Money market accounts	(3,806)	3,277	(7,083)
Savings accounts	(7)	10	(17)
Time deposits	(2,561)	6,150	(8,711)
Other borrowings	820	3,244	(2,424)
Subordinated debentures	245	651	(406)
Total interest expense	(5,116)	13,906	(19,022)
Net interest income	\$ (1,756)	\$ 13,060	\$ (14,816)

(1) Average balances include nonaccrual loans. Fees included in interest income on loans receivable are not considered material. Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material.

[Table of Contents](#)

## UNAUDITED AVERAGE BALANCES, YIELDS AND RATES

The following table sets forth average interest-earning assets and interest-bearing liabilities and the average yields and rates thereon for the periods indicated.

	For the nine months ended September 30,					
	2008			2007		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
<b>Assets</b>						
Total loans	\$2,401,162	\$116,536	6.48%	\$1,856,068	\$122,210	8.80%
Investment securities	234,894	7,293	4.15	278,090	8,342	4.01
Other interest-earning assets	3,430	70	2.73	5,945	219	4.93
Total interest-earning assets	2,639,486	123,899	6.27	2,140,103	130,771	8.17
Other assets	72,084			73,385		
Total assets	<u>\$2,711,570</u>			<u>\$2,213,488</u>		
<b>Liabilities and shareholders' equity</b>						
Interest-bearing demand deposits	\$ 75,813	\$ 454	0.80%	\$ 62,367	\$ 261	0.56%
Money market accounts	546,560	10,488	2.56	428,597	14,294	4.46
Savings accounts	13,780	58	0.56	11,795	65	0.74
Time deposits	1,237,196	36,759	3.97	1,055,156	39,320	4.98
Total interest-bearing deposits	1,873,349	47,759	3.41	1,557,915	53,940	4.63
Other borrowings	266,367	5,755	2.89	140,110	4,935	4.71
Subordinated debentures	58,054	3,080	7.07	46,393	2,835	8.15
Total interest-bearing liabilities	2,197,770	56,594	3.44	1,744,418	61,710	4.73
Noninterest-bearing demand deposits	265,245			240,688		
Other liabilities	21,826			21,158		
Shareholders' equity	226,729			207,224		
Total liabilities and shareholders' equity	<u>\$2,711,570</u>			<u>\$2,213,488</u>		
Interest rate spread		<u>\$ 67,305</u>	2.83%		<u>\$ 69,061</u>	3.44%
Net interest margin (1)			3.41%			4.31%
Ratio of average interest-earning assets to average interest-bearing liabilities	<u>120.10%</u>			<u>122.68%</u>		

(1) Net interest margin = annualized net interest income / average interest-earning assets

## [Table of Contents](#)

### Noninterest Income

<i>(Dollars in thousands)</i>	For the nine months ended September 30,		\$ Change	% Change
	2008	2007		
<b>Noninterest income:</b>				
ATM and bank card service charges	\$ 1,055	\$ 938	\$ 117	12.47%
Other service charges	5,975	4,812	1,163	24.17
Other fees	1,088	1,339	(251)	(18.75)
Other noninterest income	1,349	1,138	211	18.54
Gain on sales of loans:				
Student loan sales	790	1,911	(1,121)	(58.66)
Mortgage loan sales	712	522	190	36.40
All other loan sales	542	123	419	340.65
Gain on investment securities	1,198	1,579	(381)	(24.13)
Total noninterest income	<u>\$12,709</u>	<u>\$12,362</u>	<u>\$ 347</u>	<u>2.81%</u>

The increase in ATM and bank card service charges is the result of increased ATM interchange revenue, the increase in other service charges is the result of increases in commercial account service charges due to a reduction in earnings credits on balances caused by decreases in interest rates, while the decrease in other fees is primarily the result of a \$260,000 impairment charge on loan servicing rights recognized during the first quarter.

The increase in other noninterest income is the result of increased consulting fees of \$356,000 offset by decreased other miscellaneous income of \$151,000.

Gain on sales of loans is a reflection of the activity in the student, mortgage and commercial lending areas discussed elsewhere in this report.

Gain on investment securities includes a \$1.2 million gain due to the redemption of certain VISA USA common shares during the first quarter of 2008. During the second quarter of 2007, Southwest recorded a securities gain of \$1.9 million due to the sale of 1,500,000 shares of common stock of a public corporation, offset by a securities loss of \$448,000 which occurred in the first quarter of 2007 due to the other than temporary impairment of certain equity securities of one issuer.

### Noninterest Expense

<i>(Dollars in thousands)</i>	For the nine months ended September 30,		\$ Change	% Change
	2008	2007		
<b>Noninterest expense:</b>				
Salaries and employee benefits	\$26,941	\$25,449	\$ 1,492	5.86%
Occupancy	8,028	7,305	723	9.90
FDIC and other insurance	1,443	397	1,046	263.48
Other real estate (net)	115	(122)	237	194.26
Unfunded loan commitment reserve	250	761	(511)	(67.15)
Other general and administrative	11,918	14,011	(2,093)	(14.94)
Total noninterest expense	<u>\$48,695</u>	<u>\$47,801</u>	<u>\$ 894</u>	<u>1.87%</u>

Salaries and employee benefits increased \$1.5 million primarily as a result of annual compensation increases offset in part by a decrease in the number of employees. The number of full-time equivalent employees for the first nine months decreased from 489 at the beginning of the year to 458 as of September 30, 2008. For the first nine months of 2007, the number of full-time equivalent employees increased from 429 at the beginning of the year to 484 as of September 30, 2007.

Occupancy expense increased primarily due to increased amortization of maintenance contracts of \$338,000 and increased building rental expense of \$167,000. The remaining increase is the result of numerous de minimis increases.

## Table of Contents

Effective in 2007, under the Deposit Insurance Reform Act of 2005, depository institutions in all risk categories must pay FDIC insurance premiums. In conjunction with the premiums paid in 2007, Southwest utilized an assessment credit to substantially offset the FDIC insurance premiums. Year-to-date premiums are approximately \$1.0 million. Southwest expects substantial increases in its FDIC premium assessment in 2009.

The unfunded loan commitment reserve expense decreased \$511,000 due to a decline in the growth of commitments when compared to the same period of prior year.

Year-to-date other general and administrative expenses includes increased charitable contributions of \$270,000, increased amortization expense of \$214,000, increased fees to government guarantee agencies of \$211,000, increased accounting fees of \$185,000, and increased marketing fees of \$166,000, offset in part by the \$566,000 reversal of prior year's Visa litigation accrual and decreased supplies and printing expense of \$191,000. The net decrease in general and administrative expenses is the result of the \$2.5 million cash receivable write-off and the \$300,000 in related legal expenses that occurred in first quarter 2007. (See Note 16: "Commitments and Contingencies" in the Notes to Unaudited Consolidated Financial Statements.)

### **Provisions for Loan Losses and for Unfunded Loan Commitments**

Southwest makes provisions for loan losses in amounts necessary to maintain the allowance for loan losses and the reserve for unfunded loan commitments at the levels Southwest determines are appropriate. (See Note 6: "Allowance for Loan Losses and Reserve for Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements.)

The allowance for loan losses of \$35.8 million increased \$6.2 million, or 21%, from year-end 2007. A provision for loan losses of \$12.3 million was recorded in the first nine months of 2008, an increase of \$6.2 million, or 101%, from the first nine months of 2007. A provision for loan losses of \$6.9 million was recorded for the three months ended September 30, 2008, an increase of \$4.7 million, or 219%, from the three months ended September 30, 2007. The increase in the provision for loan losses was the result of the calculations of the appropriate allowance at each period end. This change in the period end allowance is the result of growth in performing commercial and commercial real estate loans, an increase in potential problem loans, and an increase in the allowance related to impaired loans. (See Note 6: "Allowance for Loan Losses and Reserve for Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements.)

At September 30, 2008, the reserve for unfunded loan commitments was \$3.3 million, a \$249,000, or 8%, increase from the amount reported at December 31, 2007. This reserve is included in other liabilities. The related provision for unfunded loan commitments is a component of general and administrative expense. (See Note 6: "Allowance for Loan Losses and Reserve for Unfunded Loan Commitments", in the Notes to Unaudited Consolidated Financial Statements.)

### **Taxes on Income**

Southwest's income tax expense was \$7.4 million and \$10.6 million for the first nine months of 2008 and 2007, respectively, a decrease of \$3.3 million, or 31%. The effective tax rate for the first nine months of 2008 was 38.67% while the effective tax rate for the first nine months of 2007 was 38.71%.

### **LIQUIDITY**

Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of highly marketable assets such as available for sale investments. Additional sources of liquidity, including cash flow from the repayment of loans and the sale of participations in outstanding loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of deposits, reductions in liquid assets, and accessibility to capital and money markets. These funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans, and operate the organization.

Southwest, Stillwater National, SNB Wichita, and SNB Kansas have available various forms of short-term borrowings for cash management and liquidity purposes. These forms of borrowings include federal funds purchased, securities sold under agreements to repurchase, and borrowings from the Federal Reserve Bank ("FRB"), the Student Loan Marketing Association ("Sallie Mae"), the Federal Home Loan Bank of Topeka ("FHLB").

Stillwater National also carries interest-bearing demand notes issued by the U.S. Treasury in connection with the Treasury Tax and Loan note program; the outstanding balance of those notes was \$1.9 million at September 30, 2008. Stillwater

## Table of Contents

National has approved federal funds purchase lines totaling \$372.0 million with thirteen banks; \$82.7 million was outstanding on these lines at September 30, 2008. Stillwater National is qualified to borrow funds from the FRB through their Borrower-In-Custody (“BIC”) program. Collateral under this program consists of pledged selected commercial and industrial loans. Currently the collateral will allow Stillwater National to borrow up to \$79.6 million. As of September 30, 2008, no borrowings were made through the BIC program. In addition, Stillwater National has available a \$455.8 million line of credit, SNB Wichita has a \$26.1 million line of credit, and SNB Kansas has a \$16.8 million line of credit from the FHLB. Borrowings under the FHLB lines are secured by investment securities and loans. At September 30, 2008, the Stillwater National FHLB line of credit had an outstanding balance of \$146.5 million, the SNB Wichita and the Bank of Kansas lines of credit had no amounts outstanding. In addition, Stillwater National has available two lines of credit from Sallie Mae, one for \$200 million and one for \$75 million. Borrowings under the \$200 million line would be secured by student loans and borrowings under the \$75 million line are used exclusively to fund disbursements under the consolidation loan program which Sallie Mae began in 2007. Southwest had no amounts outstanding on either the \$200 million line or the \$75 million line as of September 30, 2008.

See also “Deposits and Other Borrowings” on page 22 for funds available on brokered certificate of deposit lines of credit.

Stillwater National sells securities under agreements to repurchase with Stillwater National retaining custody of the collateral. Collateral consists of U.S. government agency obligations, which are designated as pledged with Stillwater National’s safekeeping agent. These transactions are for one to four day periods. Outstanding balances under this program were \$48.0 million and \$53.0 million as of September 30, 2008 and 2007, respectively.

During the first nine months of 2008, the only categories of other borrowings whose averages exceeded 30% of ending shareholders’ equity were federal funds purchased and funds borrowed from the FHLB.

	September 30, 2008		September 30, 2007	
	Federal Funds Purchased	Funds Borrowed from the FHLB	Federal Funds Purchased	Funds Borrowed from the FHLB
<i>(Dollars in thousands)</i>				
Amount outstanding at end of period	\$ 82,726	\$151,500	\$90,500	\$36,500
Weighted average rate paid at end of period	1.15%	3.26%	5.14%	4.39%
Average Balance:				
For the three months ended	\$101,171	\$124,954	\$65,006	\$30,633
For the nine months ended	\$ 97,499	\$120,797	\$45,455	\$47,466
Average Rate Paid:				
For the three months ended	2.11%	3.53%	5.24%	4.59%
For the nine months ended	2.65%	3.21%	5.30%	4.87%
Maximum amount outstanding at any month end	\$149,300	\$156,600	\$90,500	\$86,500

During the first nine months of 2008, cash and cash equivalents decreased by \$9.2 million, or 20%, to \$36.5 million. This decrease was the net result of cash used in investing activities of \$288.5 million, (primarily net loans originated net of principal repayments) offset by cash provided from financing activities of \$254.3 million (primarily from increased deposits and other borrowings), and cash provided by operating activities of \$25.0 million.

During the first nine months of 2007, cash and cash equivalents decreased by \$27.0 million, or 47%, to \$30.6 million. This decrease was the net result of cash used in investing activities of \$296.2 million (primarily from net loans originated net of principal repayments), offset in part by cash provided from operating activities of \$137.6 million, and cash provided by financing activities of \$131.6 million.

## **CAPITAL RESOURCES**

Bank holding companies are required to maintain capital ratios in accordance with guidelines adopted by the Federal Reserve Board (“FRB”). The guidelines are commonly known as Risk-Based Capital Guidelines. At September 30, 2008, Southwest exceeded all applicable capital requirements, having a total risk-based capital ratio of 11.88%, a Tier I risk-based capital ratio of 10.49%, and a leverage ratio of 10.51%. As of September 30, 2008, Stillwater National, SNB Wichita, and SNB Kansas met the criteria for classification as “well-capitalized” institutions under the prompt corrective action rules of the Federal Deposit Insurance Act. Designation as a well-capitalized institution under these regulations does not constitute a

recommendation or endorsement of Southwest, Stillwater National, SNB Wichita, or SNB Kansas by bank or thrift regulators.

On August 29, 2008, Southwest declared a dividend of \$.0950 per common share payable on October 1, 2008 to shareholders of record as of September 17, 2008.

## **EFFECTS OF INFLATION**

The unaudited consolidated financial statements and related unaudited consolidated financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering fluctuations in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than do the effects of general levels of inflation.

\* \* \* \* \*

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Southwest's net income is largely dependent on its net interest income. Southwest seeks to maximize its net interest margin within an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to favorable or unfavorable movements in interest rates. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of assets differ significantly from the maturity or repricing characteristics of liabilities. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and shareholders' equity.

Southwest attempts to manage interest rate risk while enhancing net interest margin by adjusting its asset/liability position. At times, depending on the level of general interest rates, the relationship between long-term and other interest rates, market conditions and competitive factors, Southwest may determine to increase its interest rate risk position in order to increase its net interest margin. Southwest monitors interest rate risk and adjusts the composition of its rate-sensitive assets and liabilities in order to limit its exposure to changes in interest rates on net interest income over time. Southwest's asset/liability committee reviews its interest rate risk position and profitability, and recommends adjustments. The asset/liability committee also reviews the securities portfolio, formulates investment strategies, and oversees the timing and implementation of transactions. Notwithstanding Southwest's interest rate risk management activities, the actual magnitude, direction, and relationship of future interest rates are uncertain, and can have adverse effects on net income and liquidity.

A principal objective of Southwest's asset/liability management effort is to balance the various factors that generate interest rate risk, thereby maintaining the interest rate sensitivity of Southwest within acceptable risk levels. To measure its interest rate sensitivity position, Southwest utilizes a simulation model that facilitates the forecasting of net interest income over the next twelve month period under a variety of interest rate and growth scenarios.

The earnings simulation model uses numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows, and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net income. Actual results differ from simulated results due to timing, cash flows, magnitude, and frequency of interest rate changes, changes in market conditions and management strategies, among other factors.

The balance sheet is subject to quarterly testing for six alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by +/- 100, 200, and 300 basis points ("bp"), although Southwest may elect not to use particular scenarios that it determines are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a twelve-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

## Table of Contents

### Estimated Changes in Net Interest Income

Changes in Interest Rates:	+ 300 bp	+200 bp	+100 bp	(100) bp
Policy Limit	(18.00)%	(10.00)%	(5.00)%	(5.00)%
September 30, 2008	(0.06)%	(1.16)%	(1.26)%	(2.27)%
December 31, 2007	+9.59%	+3.87%	+2.10%	(2.97)%

The current overnight rate is 1.50%. Southwest believes that a down 200 bp rate scenario is impractical since it would result in rates of less than 0%. As a result, the down 200 bp and down 300 bp scenarios have been excluded. The Net Interest Income at Risk position improved in the decreasing interest rate scenario when compared to the December 31, 2007 risk position. In a rising interest rate environment, Southwest's net interest income declines in each interest rate scenario. When the rising interest rate scenarios are compared to December 31, 2007, the percentage of increase in net interest income declined in all three rising interest rate scenarios. Although assumed unlikely by Southwest's Asset and Liability Management Committee, Southwest's largest exposure to changes in interest rate is in the (100 bp) scenario with a measure of (2.27%) at September 30, 2008, an improvement of 0.70 percentage points from the December 31, 2007 level of (2.97%). All of the above measures of net interest income at risk remain well within prescribed policy limits.

The measures of equity value at risk indicate the ongoing economic value of Southwest by considering the effects of changes in interest rates on all of Southwest's cash flows, and discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of Southwest's net assets.

### Estimated Changes in Economic Value of Equity (EVE)

Changes in Interest Rates:	+300 bp	+200 bp	+100 bp	(100) bp
Policy Limit	(35.00)%	(20.00)%	(10.00)%	(10.00)%
September 30, 2008	(15.09)%	(8.90)%	(2.99)%	(1.12)%
December 31, 2007	(9.68)%	(4.31)%	(0.57)%	+ 0.04%

As of September 30, 2008, the economic value of equity measure declined in the decreasing interest rate scenario and declined in each of the increasing interest rate scenarios when compared to the December 31, 2007 percentages. Southwest's largest economic value of equity exposure is the +300 bp scenario which declined 5.41 percentage points to (15.09%) on September 30, 2008 from the December 31, 2007 value of (9.68%). The economic value of equity ratio in all scenarios remains well within Southwest's Asset and Liability Management Policy limits.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

As required by SEC rules, Southwest's management evaluated the effectiveness of Southwest's disclosure controls and procedures as of September 30, 2008. Southwest's Chief Executive Officer and Chief Financial Officer participated in the evaluation. Based on this evaluation, Southwest's Chief Executive Officer and Chief Financial Officer concluded that Southwest's disclosure controls and procedures were effective as of September 30, 2008.

### First Nine Months 2008 Changes in Internal Control over Financial Reporting

No change occurred during the first nine months of 2008 that has materially affected, or is reasonably likely to materially affect, Southwest's internal control over financial reporting.

## NON-GAAP FINANCIAL MEASURES

None of the financial measures used in this report are defined as non-GAAP financial measures under federal securities regulations. Other banking organizations, however, may present such non-GAAP financial measures, which differ from measures based upon accounting principles generally accepted in the United States. For example, such non-GAAP measures may exclude certain income or expense items in calculating operating income or efficiency ratios, or may increase yields and

## [Table of Contents](#)

margins to reflect the benefits of tax-exempt interest-earning assets. Readers of this report should be aware that non-GAAP ratios and other measures presented by some banking organizations or financial analysts may not be directly comparable to similarly named ratios or other measures used by Southwest or other banking organizations.

**PART II: OTHER INFORMATION**

Item 1: **Legal proceedings**

None

Item 1A: **Risk Factors**

There were no material changes in risk factors during the first nine months of 2008 from those disclosed in Southwest's Form 10-K for the year ended December 31, 2007.

Item 2: **Unregistered sales of equity securities and use of proceeds**

There were no unregistered sales of equity securities by Southwest during the quarter ended September 30, 2008.

There were no purchases of Southwest's common stock by or on behalf of Southwest or any affiliated purchasers of Southwest (as defined in Securities and Exchange Commission Rule 10b-18) during the nine months ended September 30, 2008.

Item 3: **Defaults upon senior securities**

None

Item 4: **Submission of matters to a vote of security holders**

None

Item 5: **Other information**

None

Item 6: **Exhibits**

Exhibit 31(a), (b)            Rule 13a-14(a)/15d-14(a) Certifications  
Exhibit 32(a), (b)            18 U.S.C. Section 1350 Certifications

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHWEST BANCORP, INC.  
(Registrant)

By: /s/ Rick Green November 6, 2008  
Rick Green Date  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Kerby Crowell November 6, 2008  
Kerby Crowell Date  
Executive Vice President, Chief Financial Officer  
and Secretary  
(Principal Financial Officer)

[\(Back To Top\)](#)

**Section 2: EX-31.A (EX-31.A: CERTIFICATION)**

Exhibit 31(a)

Rule 13a-14(a)/15d-14(a) Certification

I, Rick Green, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based upon such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2008

/s/ Rick Green  
Rick Green  
President and Chief Executive Officer  
(Principal Executive Officer)

[\(Back To Top\)](#)

## Section 3: EX-31.B (EX-31.B: CERTIFICATION)

Exhibit 31(b)

### Rule 13a-14(a)/15d-14(a) Certification

I, Kerby Crowell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based upon such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2008

/s/ Kerby Crowell  
Kerby Crowell  
Executive Vice President, Chief Financial Officer  
and Secretary  
(Principal Financial Officer)

[\(Back To Top\)](#)

## Section 4: EX-32.A (EX-32.A: CERTIFICATION)

Exhibit 32(a)

18 U.S.C. Section 1350 Certification

I hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2003, to the best of my knowledge and belief, that the accompanying Form 10-Q of Southwest Bancorp, Inc. ("Southwest") for the nine months and quarterly period ended September 30, 2008, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Southwest.

By: /s/ Rick Green  
Rick Green  
President and Chief Executive Officer  
(Principal Executive Officer)

November 6, 2008  
Date

[\(Back To Top\)](#)

## Section 5: EX-32.B (EX-32.B: CERTIFICATION)

Exhibit 32(b)

18 U.S.C. Section 1350 Certification

I hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2003, to the best of my knowledge and belief, that the accompanying Form 10-Q of Southwest Bancorp, Inc. ("Southwest") for the nine months and quarterly period ended September 30, 2008, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and that the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Southwest.

By: /s/ Kerby Crowell  
Kerby Crowell  
Executive Vice President, Chief Financial Officer  
and Secretary  
(Principal Financial Officer)

November 6, 2008  
Date

[\(Back To Top\)](#)