SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☑ YES ☐ NO

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

Large Accelerated Filer ☐ Accelerated Filer ☑ Non-Accelerated Filer ☐ 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.

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19,443,800 (11/04/11)

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SOUTHWEST BANCORP, INC.
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SOUTHWEST BANCORP, INC.

Unaudited Consolidated Statements of Financial Condition

(Dollars in thousands)	September 30, 2011	December 31, 2010
Assets:		
Cash and due from banks	$ 27,501	$ 26,478
Interest-bearing deposits	89,099	41,018
Cash and cash equivalents	116,600	67,496
Securities held to maturity (fair values of $15,805 and $14,029, respectively)	15,398	14,304
Securities available for sale (amortized cost $247,094 and $246,649, respectively)	254,201	248,221
Loans held for sale	39,902	35,194
Noncovered loans receivable	1,993,694	2,331,293
Less: Allowance for loan losses	(64,698)	(65,229)
Net noncovered loans	1,928,996	2,266,064
Covered loans receivable (includes loss share of $10,976 and $14,370, respectively)	41,209	53,628
Net loans receivable	1,970,205	2,319,692
Accrued interest receivable	8,035	8,590
Income tax receivable	12,509	–
Premises and equipment, net	22,706	23,772
Noncovered other real estate	70,785	37,722
Covered other real estate	5,350	4,187
Goodwill	6,811	6,811
Other intangible assets, net	4,966	5,371
Other assets	45,024	49,181
Total assets	$ 2,572,492	$ 2,820,541
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 388,365	$ 377,182
Interest-bearing demand	98,270	92,584
Money market accounts	461,546	495,253
Savings accounts	31,319	26,665
Time deposits of $100,000 or more	551,914	694,565
Other time deposits	490,839	566,479
Total deposits	2,022,253	2,252,728
Accrued interest payable	2,507	1,577
Income tax payable	–	2,878
Other liabilities	12,162	8,981
Other borrowings	86,583	94,602
Subordinated debentures	81,963	81,963
Total liabilities	2,205,468	2,442,729
Shareholders' equity:		
Serial preferred stock – $1,000 par value; 2,000,000 shares authorized; 70,000 shares issued and outstanding	68,268	67,724
Common stock – $1 par value; 40,000,000 shares authorized; 19,441,577 and 19,421,900 shares issued and outstanding, respectively	19,442	19,422
Paid in capital	98,981	98,894
Retained earnings	177,584	190,793
Accumulated other comprehensive income	2,749	979
Total shareholders' equity	367,024	377,812
Total liabilities & shareholders' equity	$ 2,572,492	$ 2,820,541

The accompanying notes are an integral part of this statement.

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SOUTHWEST BANCORP, INC.

Unaudited Consolidated Statements of Operations

(Dollars in thousands, except earnings per share data)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Interest income:				
Interest and fees on loans	$27,873	$32,824	$87,890	$101,087
Investment securities:				
U.S. Government and agency obligations	366	$526	1,152	1,675
Mortgage-backed securities	1,298	1,430	3,868	4,329
State and political subdivisions	103	61	282	203
Other securities	12	62	87	217
Other interest-earning assets	131	180	401	610
Total interest income	29,783	35,083	93,680	108,121
Interest expense:				
Interest-bearing demand	102	111	329	383
Money market accounts	507	976	1,766	3,026
Savings accounts	11	15	37	47
Time deposits of $100,000 or more	1,680	3,128	6,106	10,669
Other time deposits	1,511	2,572	5,237	8,222
Other borrowings	469	524	1,460	1,565
Subordinated debentures	1,478	1,305	4,314	3,848
Total interest expense	5,758	8,631	19,249	27,760
Net interest income	24,025	26,452	74,431	80,361
Provision for loan losses	24,626	11,988	53,816	28,295
Net interest income (loss) after provision for loan losses	(601)	14,464	20,615	52,066
Noninterest income:				
Service charges and fees	3,117	2,994	9,226	9,260
Other noninterest income	46	83	195	515
Gain on sales of loans, net	426	653	1,021	2,054
Gain on sale/call of investment securities, net	–	2,605	–	2,646
Total noninterest income	3,589	6,335	10,442	14,475
Noninterest expense:				
Salaries and employee benefits	7,734	7,183	22,223	22,400
Occupancy	2,694	2,835	8,201	8,454
FDIC and other insurance	824	1,347	3,004	4,455
Other real estate, net	1,445	228	4,483	963
General and administrative	4,996	3,825	10,387	10,550
Total noninterest expense	17,693	15,418	48,298	46,822
Income (loss) before taxes	(14,705)	5,381	(17,241)	19,719
Taxes on income	(5,180)	1,508	(7,207)	7,063
Net income (loss)	$(9,525)	$3,873	$(10,034)	$12,656
Net income (loss) available to common shareholders	$(10,589)	$2,825	$(13,208)	$9,520
Basic earnings per common share	$(0.54)	$0.15	$(0.68)	$0.55
Diluted earnings per common share	(0.54)	0.15	(0.68)	0.55
Cash dividends declared per share	–	–	–	–

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SOUTHWEST BANCORP, INC.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)	For the nine months ended September 30, 2011	2010
Operating activities:		
Net income (loss)	$(10,034)	$12,656
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	53,816	28,295
Provision for other real estate and adjustments to other real estate	2,301	590
Deferred tax benefit	(39)	(4,959)
Asset depreciation	1,971	2,135
Securities premium amortization, net of discount accretion	1,640	1,361
Amortization of intangibles	887	1,101
Stock based compensation expense	256	283
Net gain on sales/calls of investment securities	–	(2,646)
Net gain on sales of available for sale loans	(1,021)	(2,054)
Net loss on sales of premises/equipment	1	138
Net gain on sales of other real estate	(123)	(189)
Proceeds from sales of held for sale loans	48,295	122,783
Held for sale loans originated for resale	(48,290)	(93,463)
Net changes in assets and liabilities:		
Accrued interest receivable	555	1,143
Other assets	2,665	8,427
Income taxes receivable / payable	(15,547)	2,131
Excess tax expense (benefit) from share-based payment arrangements	160	(14)
Accrued interest payable	930	(734)
Other liabilities	(792)	(1,978)
Net cash provided by operating activities	37,631	75,006
Investing activities:		
Proceeds from sales of available for sale securities	–	57,783
Proceeds from principal repayments, calls and maturities:		
Held to maturity securities	2,345	2,700
Available for sale securities	42,419	53,286
Proceeds from sales of other investments	–	9,761
Purchases of other investments	(42)	(1,100)
Purchases of held to maturity securities	–	(5,134)
Purchases of available for sale securities	(47,944)	(99,880)
Principal repayments, net of loans originated	239,894	86,686
Purchases of premises and equipment	(977)	(825)
Proceeds from sales of premises and equipment	108	50
Proceeds from sales of other real estate	16,021	8,669
Net cash provided from investing activities	251,824	111,996
Financing activities:		
Net decrease in deposits	(230,475)	(247,082)
Net decrease in other borrowings	(8,019)	(20,516)
Net proceeds from issuance of common stock	53	54,169
Excess tax (expense) benefit from share-based payment arrangements	(160)	14
Preferred stock dividends paid	(1,750)	(2,625)
Common stock dividends paid	–	(351)
Net cash used in financing activities	(240,351)	(216,391)
Net increase (decrease) in cash and cash equivalents	49,104	(29,389)
Cash and cash equivalents:		
Beginning of period	67,496	118,847

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End of period	$116,600	$89,458

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SOUTHWEST BANCORP, INC.

Unaudited Consolidated Statement of Shareholders' Equity

(Dollars in thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2009	$67,037	14,750,713	$14,751	$49,029	$178,016	$ 945	$ 309,778
Dividends (paid and/or accrued):							
Preferred	–	–	–	–	(2,626)	–	(2,626)
Warrant amortization	511	–	–	–	(511)	–	–
Common stock issued	–	4,626,281	4,626	49,601	–	–	54,227
Net common stock issued under employee plans and related tax expense	–	18,681	19	120	–	–	139
Other comprehensive income, net of tax	–	–	–	–	–	2,402	2,402
Net income	–	–	–	–	12,656	–	12,656
Balance, September 30, 2010	$67,548	19,395,675	$19,396	$98,750	$187,535	$ 3,347	$ 376,576
Balance, December 31, 2010	$67,724	19,421,900	$19,422	$98,894	$190,793	$ 979	$ 377,812
Dividends (paid and/or accrued):							
Preferred	–	–	–	–	(2,631)	–	(2,631)
Warrant amortization	544	–	–	–	(544)	–	–
Common stock issued	–	16,100	16	214	–	–	230
Net common stock issued under employee plans and related tax expense	–	3,577	4	(127)	–	–	(123)
Other comprehensive income, net of tax	–	–	–	–	–	1,770	1,770
Net income (loss)	–	–	–	–	(10,034)	–	(10,034)
Balance, September 30, 2011	$68,268	19,441,577	$19,442	$98,981	$177,584	$ 2,749	$ 367,024

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SOUTHWEST BANCORP, INC.

Unaudited Consolidated Statements of Comprehensive Income

(Dollars in thousands)	For the three months ended September 30, 2011	2010	For the nine months ended September 30, 2011	2010
Net income (loss)	$(9,525)	$3,873	$(10,034)	$12,656
Other comprehensive income:				
Unrealized holding gain (loss) on available for sale securities	2,377	(309)	5,535	6,569
Reclassification adjustment for losses arising during the period	–	(2,605)	–	(2,646)
Change in fair value of derivative used for cash flow hedge	(1,535)	–	(2,715)	–
Other comprehensive income (loss), before tax	842	(2,914)	2,820	3,923
Tax benefit (expense) related to items of other comprehensive income (loss)	(321)	1,128	(1,050)	(1,521)
Other comprehensive income (loss), net of tax	521	(1,786)	1,770	2,402
Comprehensive income (loss)	$(9,004)	$2,087	$(8,264)	$15,058

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SOUTHWEST BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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 three and nine months ended September 30, 2011, and the cash flows for the nine months ended September 30, 2011, 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, 2010.

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") and Bank of Kansas, and SNB Capital Corporation, a lending and loan workout subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications have been made to prior year amounts on the statement of financial condition and statement of cash flows to conform to current year presentation.

In accordance with Accounting Standards Codification ("ASC") 855, *Subsequent Events*, Southwest has evaluated subsequent events for potential recognition and disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

NOTE 2: INVESTMENT SECURITIES

A summary of the amortized cost and fair values of investment securities at September 30, 2011 and December 31, 2010 follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At September 30, 2011:				
Held to Maturity:				
Obligations of state and political subdivisions	$15,398	$407	$−	$15,805
Total	$15,398	$407	$−	$15,805
Available for Sale:				
U.S. Government obligations	$1,100	$2	$−	$1,102
Federal agency securities	67,508	942	(63)	68,387
Obligations of state and political subdivisions	994	24	−	1,018
Residential mortgage-backed securities	176,364	6,071	(38)	182,397
Equity securities	1,128	169	−	1,297
Total	$247,094	$7,208	$(101)	$254,201

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(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2010:				
Held to Maturity:				
Obligations of state and political subdivisions	$ 14,304	$43	$(318)	$14,029
Total	$ 14,304	$43	$(318)	$14,029
Available for Sale:				
U.S. Government obligations	$ 1,099	$9	$−	$1,108
Federal agency securities	65,522	545	(693)	65,374
Obligations of state and political subdivisions	231	2	−	233
Residential mortgage-backed securities	178,695	3,535	(2,213)	180,017
Equity securities	1,102	387	−	1,489
Total	$ 246,649	$4,478	$(2,906)	$248,221

Residential 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").

Securities with limited marketability, such as Federal Reserve Bank stock, Federal Home Loan Bank stock, and certain other investments, are carried at cost and included in other assets on the statement of condition. Total investments carried at cost were $10.4 million at both September 30, 2011 and December 31, 2010. There are no identified events or changes in circumstances that may have a significant adverse effect on these investments carried at cost.

A comparison of the amortized cost and approximate fair value of Southwest' s investment securities by maturity date at September 30, 2011 follows:

(Dollars in thousands)	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
One year or less	$ 13,653	$13,784	$ 2,377	$2,388
M ore than one year through five years	173,494	179,605	3,081	3,128
M ore than five years through ten years	45,713	46,395	6,463	6,609
M ore than ten years	14,234	14,417	3,477	3,680
Total	$ 247,094	$254,201	$ 15,398	$15,805

The foregoing analysis assumes that Southwest' s residential mortgage-backed securities mature during the period in which they are estimated to prepay. No other prepayment or repricing assumptions have been applied to Southwest' s investment securities for this analysis.

Gain or loss on sale of investments is based upon the specific identification method. There were no sales of investment securities for the three or nine months ended September 30, 2011. For the three and nine months ended September 30, 2010, there were $57.8 million in proceeds from sales of investment securities with $2.5 million in gains recorded.

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, 2011 and December 31, 2010. Securities whose market values exceed cost are excluded from this table.

(Dollars in thousands)	Number of Securities	Amortized cost of securities with unrealized losses	Continuous Unrealized Loss Existing for: Less Than 12 Months	Continuous Unrealized Loss Existing for: More Than 12 Months	Fair value of securities with unrealized losses
At September 30, 2011:					
Available for Sale:					
Federal agency securities	5	$ 9,142	$ (63)	$ −	$ 9,079
Residential mortgage-backed securities	7	7,044	(38)	−	7,006
Total	12	$ 16,186	$ (101)	$ −	$ 16,085

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(Dollars in thousands)	Number of Securities	Amortized Cost	Continuous Unrealized Loss Existing for: Less Than 12 Months	More Than 12 Months	Fair Value
At December 31, 2010:					
Held to Maturity:					
Obligations of state and political subdivisions	6	$6,490	$(318)	$−	$6,172
	6	$6,490	$(318)	$−	$6,172
Available for Sale:					
Federal agency securities	11	$26,645	$(693)	$−	$25,952
Obligations of state and political subdivisions	1	55	−	−	55
Residential mortgage-backed securities	27	62,197	(2,213)	−	59,984
Total	39	$88,897	$(2,906)	$−	$85,991

Southwest evaluates all 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 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 an anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity in the table above until they mature, at which time Southwest expects to receive full value for the securities. Furthermore, as of September 30, 2011, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is not more likely than not that Southwest will have to sell any such securities before a recovery of cost. The declines in fair value were attributable to increases in market interest rates over the yields available at the time the underlying securities were purchased or increases in spreads over market interest rates. Management does not believe any of the securities are impaired due to credit quality. Accordingly, as of September 30, 2011, management believes the impairment of these investments is not deemed to be other-than-temporary.

As required by law, available for sale investment securities are pledged to secure public and trust deposits, sweep agreements, and borrowings from the FHLB. Securities with an amortized cost of $215.5 million and $216.4 million were pledged to meet such requirements at September 30, 2011 and December 31, 2010, respectively. Any amount over-pledged can be released at any time.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

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 other metropolitan markets in Texas, Kansas, and Oklahoma. As a result, the collectability of Southwest’ s loan portfolio can be affected by changes in the economic conditions in those states and markets. Please see Note 8: Operating Segments for more detail of loans by market. At September 30, 2011 and December 31, 2010, 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.

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Southwest' s loan categories were as follows:

(Dollars in thousands)	September 30, 2011 Noncovered	September 30, 2011 Covered	December 31, 2010 Noncovered	December 31, 2010 Covered
Real estate mortgage:				
Commercial	$ 1,169,010	$23,201	$ 1,310,464	$30,997
One-to-four family residential	85,272	7,378	89,800	9,122
Real estate construction:				
Commercial	348,053	5,987	441,265	6,840
One-to-four family residential	25,527	–	27,429	439
Commercial	367,241	4,286	452,626	5,554
Installment and consumer:				
Guaranteed student loans	5,547	–	5,843	–
Other	32,946	357	39,060	676
	2,033,596	41,209	2,366,487	53,628
Less: Allowance for loan losses	(64,698)	–	(65,229)	–
Total loans, net	$ 1,968,898	$41,209	$ 2,301,258	$53,628

Concentrations of Credit. At September 30, 2011, approximately $624.1 million, or 31%, of Southwest' s noncovered loans 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.

Loan Servicing. Southwest earns fees for servicing real estate mortgages and other loans owned by others. The fees are generally calculated on the outstanding principal balance of the loans serviced and are recorded as noninterest income when earned. The unpaid principal balance of real estate mortgage loans serviced for others totaled $285.9 million and $261.3 million at September 30, 2011 and September 30, 2010, respectively. Loan servicing rights are capitalized based on estimated fair value at the point of origination. The servicing rights are amortized on an individual loan by loan basis over the period of estimated net servicing income.

Acquired Loans. On June 19, 2009, Bank of Kansas entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ("FDIC") to acquire substantially all loans as well as certain other related assets of First National Bank of Anthony, Anthony, Kansas ("FNBA") in an FDIC-assisted transaction. Bank of Kansas and the FDIC entered into loss sharing agreements that provide Bank of Kansas with significant protection against credit losses from loans and related assets acquired in the transaction. Under these agreements, the FDIC will reimburse Bank of Kansas 80% of net losses up to $35.0 million on covered assets, primarily acquired loans and other real estate, and 95% of any net losses above $35.0 million. Bank of Kansas services the covered assets.

Loans covered under the loss sharing agreements with the FDIC, including the amounts of expected reimbursements from the FDIC under these agreements, are reported in loans and are referred to as "covered" loans. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Subsequent decreases in expected cash flows are recognized as impairments.

The expected payments from the FDIC under the loss sharing agreements are recorded as part of the covered loans in the Unaudited Consolidated Statement of Financial Condition. As of September 30, 2011, Bank of Kansas has identified $17.7 million in cumulative net losses that have been submitted to the FDIC under such loss sharing agreements.

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Changes in the carrying and net accretable amounts for ASC 310.30 loans were as follows for the three and nine months ended September 30, 2011 and September 30, 2010.

	For the three months ended September 30,			
	2011		2010	
(Dollars in thousands)	Net accretable amount	Carrying amount of loans	Net accretable amount	Carrying amount of loans
Fair value of acquired loans at beginning of period	$2,573	$ 46,153	$ 2,956	$68,006
Payments received	–	(1,727)	–	(6,616)
Transfers to other real estate / repossessed assets	–	(2,261)	(35)	(638)
Charge-offs	(88)	(979)	(125)	(241)
Amortization	(23)	23	(47)	47
Balance at end of period	$2,462	$ 41,209	$ 2,749	$60,558

	For the nine months ended September 30,			
	2011		2010	
(Dollars in thousands)	Net accretable amount	Carrying amount of loans	Net accretable amount	Carrying amount of loans
Fair value of acquired loans at beg inning of period	$2,688	$53,628	$3,074	$85,405
Payments received	–	(7,925)	–	(21,048)
Transfers to other real estate / repossessed assets	4	(3,534)	(87)	(3,778)
Charge-offs	(85)	(1,105)	(18)	(241)
Amortization	(145)	145	(220)	220
Balance at end of period	$2,462	$41,209	$2,749	$60,558

Nonperforming / Past Due Loans. Southwest identifies past due loans based on contractual terms on a loan by loan basis and generally places loans, except for consumer loans, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management' s opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual but are charged-off when they are four months past due. Accrued interest is written off when a loan is placed on nonaccrual status. Subsequent interest income is recorded when cash receipts are received from the borrower and collectability of the principal amount is reasonably assured.

Under generally accepted accounting principles and instructions to reports of condition and income of federal banking regulators, a nonaccrual loan may be returned to accrual status: when none of its principal and interest is due and unpaid, repayment is expected, and there has been a sustained period (at least six months) of repayment performance; when the loan is not brought current, but there is a sustained period of performance and repayment within a reasonable period is reasonably assured; or when the loan otherwise becomes well-secured and in the process of collection. Purchased impaired loans also may be returned to accrual status without becoming fully current. Loans that have been restructured because of weakened financial positions of the borrowers also may be returned to accrual status if repayment is reasonably assured under the revised terms and there has been a sustained period of repayment performance.

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.

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The following table presents the recorded investment in loans on nonaccrual status.

(Dollars in thousands)	At September 30, 2011 Noncovered	At September 30, 2011 Covered	At December 31, 2010 Noncovered	At December 31, 2010 Covered
Real estate mortgage:				
Commercial	$ 56,234	$1,953	$ 29,996	$4,391
One-to-four family residential	1,433	200	1,984	932
Real estate construction:				
Commercial	49,775	4,293	53,269	4,744
One-to-four family residential	18,779	–	14,302	153
Commercial	5,895	608	6,977	581
Other consumer	152	11	38	5
Total nonaccrual loans	$ 132,268	$7,065	$ 106,566	$10,806

During the first nine months of 2011, $0.2 million of interest income was received on nonaccruing loans. If interest on all nonaccrual loans had been accrued for the nine months ended September 30, 2011, additional interest income of $4.5 million would have been recorded.

Charge-offs against noncovered nonaccrual loans were $34.9 million and $14.3 million as of September 30, 2011 and December 31, 2010, respectively.

Included in noncovered nonaccrual loans as of September 30, 2011 and December 31, 2010, respectively, are twelve and nine collateral dependent lending relationships with aggregate principal balances of approximately $90.3 million and $75.4 million and related impairment reserves of $12.3 million and $5.9 million, which were established either based on recent appraisal values obtained for the respective properties or the discounted present value of expected cash flows using the loan’ s initial effective interest rate. At September 30, 2011, all of these lending relationships are in the commercial real estate industry and include: two residential condominium construction projects, one with one loan outstanding and the other with two loans outstanding; two residential apartment complex relationships, one with two loans outstanding and the other with one loan outstanding; a retail building project with one loan outstanding; a residential land relationship with two loans outstanding; one lending relationship for residential care buildings with three loans outstanding; three commercial building lending relationships, two with one loan outstanding and the other with two loans outstanding; and two commercial land development relationships each with one loan outstanding.

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The following table presents an age analysis of past due loans at September 30, 2011 and December 31, 2010.

(Dollars in thousands)	30-89 days past due	90 days and greater past due	Total past due	Current	Total loans	Recorded loans > 90 days and accruing
At September 30, 2011						
Noncovered:						
Real estate mortgage:						
Commercial	$173	$ 56,234	$56,407	$1,112,603	$1,169,010	$ –
One-to-four family residential	394	1,706	2,100	83,172	85,272	273
Real estate construction						
Commercial	192	49,775	49,967	298,086	348,053	–
One-to-four family residential	–	18,779	18,779	6,748	25,527	–
Commercial	1,325	6,080	7,405	359,836	367,241	185
Other	127	152	279	38,214	38,493	–
Total – noncovered	2,211	132,726	134,937	1,898,659	2,033,596	458
Covered:						
Real estate mortgage:						
Commercial	$74	$ 1,953	$2,027	$21,174	$23,201	$ –
One-to-four family residential	–	200	200	7,178	7,378	–
Real estate construction						
Commercial	–	4,903	4,903	1,084	5,987	610
One-to-four family residential	–	–	–	–	–	–
Commercial	38	608	646	3,640	4,286	–
Other	–	11	11	346	357	–
Total – covered	112	7,675	7,787	33,422	41,209	610
Total	$2,323	$ 140,401	$142,724	$1,932,081	$2,074,805	$ 1,068
At December 31, 2010						
Noncovered:						
Real estate mortgage:						
Commercial	$3,793	$ 30,510	$34,303	$1,276,161	$1,310,464	$ 514
One-to-four family residential	1,438	1,984	3,422	86,378	89,800	–
Real estate construction						
Commercial	7,569	53,269	60,838	380,427	441,265	–
One-to-four family residential	–	14,302	14,302	13,127	27,429	–
Commercial	10,707	6,977	17,684	434,942	452,626	–
Other	1,236	41	1,277	43,626	44,903	3
Total – noncovered	24,743	107,083	131,826	2,234,661	2,366,487	517
Covered:						
Real estate mortgage:						
Commercial real estate	$227	$ 4,391	$4,618	$26,379	$30,997	$ –
One-to-four family residential	142	932	1,074	8,048	9,122	–
Real estate construction						
Commercial real estate	–	4,744	4,744	2,096	6,840	–
One-to-four family residential	108	153	261	178	439	–

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Commercial	–	581	581	4,973	5,554	–
Other	14	5	19	657	676	–
Total – covered	491	10,806	11,297	42,331	53,628	–
Total	$25,234	$ 117,889	$143,123	$2,276,992	$2,420,115	$ 517

Impaired Loans. A loan is considered to be impaired when, based on current information and events, it is probable that Southwest will be unable to collect all amounts due according to the contractual terms of the loan agreement. Each loan deemed to be impaired (all loans on nonaccrual or restructured) is evaluated on an individual basis using the discounted present value of expected cash flows using the loan' s initial effective interest rate, the fair value of collateral, or the market

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value of the loan, and a specific allowance is recorded. Smaller balance, homogeneous loans, including mortgage, student, and consumer, are collectively evaluated for impairment.

Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

Impaired loans are presented in the following tables.

	With No Specific Allowance			With A Specific Allowance		
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
At September 30, 2011						
Noncovered:						
Commercial real estate	$ 30,073	$32,056	$–	82,732	88,318	10,037
One-to-four family residential	1,301	1,548	–	132	154	2
Real estate construction	51,411	65,486	–	25,249	28,893	4,504
Commercial	6,201	6,480	–	7,275	7,536	1,974
Other	22	26	–	130	136	130
Total noncovered	$ 89,008	$105,596	$–	$ 115,518	$125,037	$ 16,647
Covered:						
Commercial real estate	$ 1,953	$2,323	$–	$ –	$–	$ –
One-to-four family residential	200	348	–	–	–	–
Real estate construction	4,293	5,162	–	–	–	–
Commercial	608	1,325	–	–	–	–
Other	11	29	–	–	–	–
Total covered	$ 7,065	$9,187	$–	$ –	$–	$ –
At December 31, 2010						
Noncovered:						
Commercial real estate	$ 30,064	$30,534	$–	$ 42,732	$46,192	$ 10,813
One-to-four family residential	323	368	–	1,660	1,909	197
Real estate construction	46,978	51,644	–	35,579	37,667	5,313
Commercial	3,790	5,039	–	8,464	8,728	3,643
Other	–	–	–	38	48	28
Total noncovered	$ 81,155	$87,585	$–	$ 88,473	$94,544	$ 19,994
Covered:						
Commercial real estate	$ 4,391	$6,120	$–	$ –	$–	$ –
One-to-four family residential	932	1,104	–	–	–	–
Real estate construction	4,897	6,179	–	–	–	–
Commercial	581	1,092	–	–	–	–
Other	5	14	–	–	–	–
Total covered	$ 10,806	$14,509	$–	$ –	$–	$ –

The average recorded investment and interest income recognized on impaired loans as of September 30, 2011 and September 30, 2010 is shown in the following table.

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(Dollars in thousands)	Three Months Ended September 30, 2011 Average Recorded Investment	2011 Interest Income	2010 Average Recorded Investment	2010 Interest Income	Nine Months Ended September 30, 2011 Average Recorded Investment	2011 Interest Income	2010 Average Recorded Investment	2010 Interest Income
Noncovered:								
Commercial real estate	$97,136	$–	$27,663	$–	$86,544	$–	$24,878	$14
One-to-four family residential	1,371	3	7,086	14	1,335	5	7,007	15
Real estate construction	71,096	–	76,268	–	62,516	–	57,156	267
Commercial	10,816	83	3,772	(87)	8,745	139	3,195	(66)
Other	152	1	31	–	91	1	35	–
Total noncovered	$180,571	$87	$114,820	$(73)	$159,231	$145	$92,271	$230
Covered:								
Commercial real estate	$25,195	$–	$34,198	$14	$27,676	$10	$37,007	$14
One-to-four family residential	7,840	–	10,337	–	8,183	–	11,286	43
Real estate construction	6,149	–	10,561	–	6,449	–	13,281	–
Commercial	4,411	1	7,877	6	4,786	1	9,788	8
Other	385	–	1,027	–	489	–	1,265	–
Total covered	$43,980	$1	$64,000	$20	$47,583	$11	$72,627	$65

Troubled Debt Restructurings. The loan portfolio also includes certain loans that have been modified in a troubled debt restructuring (“TDR”), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as impaired at the time of restructuring and typically are returned to performing status after considering the borrower’ s sustained repayment for a reasonable period of at least six months.

When Southwest modifies loans in a TDR, an evaluation of any possible impairment is performed similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use of the current fair value of the collateral, less selling costs for collateral dependent loans. If it is determined that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, all TDRs are evaluated, including those that have payment defaults, for possible impairment.

Effective July 1, 2011, Southwest adopted Accounting Standards Update No. 2011-02, *A Creditor’ s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* As such, Southwest reassessed all loan modifications occurring since January 1, 2011 for identification as troubled debt restructurings.

Loans classified as troubled debt restructurings during the three and nine months ended September 30, 2011 are shown in the following table.

(Dollars in thousands)	Number of Modifications	Recorded Investment
For the three months ended September 30, 2011		
Commercial real estate	5	$33,879
Commercial	8	5,904
Consumer	1	130
Total	14	$39,913
For the nine months ended September 30, 2011		
Commercial real estate	10	$51,097
Real estate construction	1	8,106

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Commercial	13	6,805
Consumer	1	130
Total	25	$ 66,138

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The modifications of loans identified as troubled debt restructurings primarily related to payment extensions and/or reductions in the interest rates. Financial impact of TDRs is not significant. Southwest has no significant commitments to lend additional amounts to these performing troubled debt restructured loans.

As of September 30, 2011, there have been no defaults on any loans that were modified as troubled debt restructurings during the preceding twelve months. Default occurs when a loan is 90 days or more past due or transferred to nonaccrual and is within twelve months of restructuring.

Credit Quality Indicators. To assess the credit quality of loans, Southwest categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. This analysis is performed on a quarterly basis. Southwest uses the following definitions for risk ratings:

Special mention − Loans classified as special mention have potential weaknesses that deserve management' s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for these loans or of the institution' s credit position at some future date.

Substandard − Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligors or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Southwest will sustain some loss if the deficiencies are not corrected. These loans are considered potential nonperforming or nonperforming loans depending on the accrual status of the loans.

Doubtful − Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These loans are considered nonperforming.

Loans not meeting the criteria above that are analyzed as part of the above described process are considered to be pass rated loans. As of September 30, 2011 and December 31, 2010, and based on the most recent analysis performed as of those dates, the risk category of loans by class of loans is as follows:

(Dollars in thousands)	Commercial Real Estate	1-4 Family Residential	Real Estate Construction	Commercial	Other	Total
At September 30, 2011						
Grade:						
Pass	$ 915,628	$ 89,827	$ 200,599	$ 315,474	$38,704	$1,560,232
Special Mention	55,207	443	29,909	11,530	128	97,217
Substandard	212,129	2,380	142,043	42,216	18	398,786
Doubtful	9,247	−	7,016	2,307	−	18,570
Total	$ 1,192,211	$ 92,650	$ 379,567	$ 371,527	$38,850	$2,074,805

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(Dollars in thousands)	Commercial Real Estate	1-4 Family Residential	Real Estate Construction	Commercial	Other	Total
At December 31, 2010						
Grade:						
Pass	$ 1,190,587	$ 93,961	$ 276,613	$ 399,344	$44,161	$2,004,666
Special Mention	13,854	1,840	24,023	13,436	1,340	54,493
Substandard	132,148	2,644	168,220	41,906	54	344,972
Doubtful	4,872	477	7,117	3,494	24	15,984
Total	$ 1,341,461	$ 98,922	$ 475,973	$ 458,180	$45,579	$2,420,115

Allowance for Loan Losses. 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. The amount of the loan loss provision for a period is based solely upon the amount needed to cause the allowance to reach the level deemed appropriate after the effects of net charge-offs for the period.

Management believes the level of the allowance is appropriate to absorb probable losses inherent in the loan portfolio. The allowance for loan losses is determined in accordance with regulatory guidelines and generally accepted accounting principles and is comprised of two primary components. There is no one factor, or group of factors, that produces the amount of an appropriate allowance for loan losses, as the methodology for assessing the allowance for loan losses makes use of evaluations of individual impaired loans along with other factors and analysis of loan categories. This assessment is highly qualitative and relies upon judgments and estimates by management.

A specific allowance is recorded based on the result consistent with ASC 310.10.35, *Receivables: Subsequent Measurement*, for each impaired loan. Collateral dependent loans are evaluated for impairment based upon the fair value of the collateral. The amount and level of the impairment allowance is ultimately determined by management' s estimate of the amount of expected future cash flows or, if the loan is collateral dependent, on the value of collateral, which may vary from period to period depending on changes in the financial condition of the borrower or changes in the estimated value of the collateral. Charge-offs against the allowance for impaired loans are made when and to the extent loans are deemed uncollectible. Any portion of a collateral dependent impaired loan in excess of the fair value of the collateral that is determined to be uncollectible is charged off.

The remaining portion of the allowance is calculated based on ASC 450, *Contingencies*. Loans not evaluated for specific allowance are segmented into loan pools by type of loan. The commercial real estate and real estate construction pools are further segmented by the market in which the loan collateral is located. Our primary markets are Oklahoma, Texas, and Kansas, and loans secured by real estate in those states are included in the "in-market" pool, with the remaining defaulting to the "out-of-market" pool. Estimated allowances are based on historical loss trends with adjustments factored in based on qualitative risk factors both internal and external to Southwest. The historical loss trend is determined by loan pool and segmentation and is based on the actual loss history experienced by Southwest over the most recent three years. The qualitative risk 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.

Independent appraisals on real estate collateral securing loans are obtained at origination. New appraisals are obtained periodically and following discovery of factors that may significantly affect the value of the collateral. Appraisals typically are received within 30 days of request. Results of appraisals on nonperforming and potential problem loans are reviewed promptly upon receipt and considered in the determination of the allowance for loan losses. Southwest is not aware of any significant time lapses in the process that have resulted, or would result in, a significant delay in determination of a credit weakness, the identification of a loan as nonperforming, or the measurement of an impairment.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment evaluation method.

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(Dollars in thousands)	Commercial Real Estate	1-4 Family Residential	Real Estate Construction	Commercial	Other	Total
At September 30, 2011						
Balance at beginning of period	$ 32,508	$ 1,597	$ 19,605	$ 10,605	$914	$65,229
Loans charged-off	(20,870)	(334)	(19,662)	(15,419)	(736)	(57,021)
Recoveries	285	56	626	1,614	93	2,674
Provision for loan losses	25,030	(286)	14,610	13,851	611	53,816
Balance at end of period	$ 36,953	$ 1,033	$ 15,179	$ 10,651	$882	$64,698
Period-end amount allocated to:						
Individually evaluated for impairment	$ 10,037	$ 2	$ 4,504	$ 1,974	$130	$16,647
Collectively evaluated for impairment	26,916	1,031	10,675	8,677	752	48,051
Acquired with deteriorated credit quality	–	–	–	–	–	–
Total ending allowance balance	$ 36,953	$ 1,033	$ 15,179	$ 10,651	$882	$64,698
Loans receivable ending balance:						
Individually evaluated for impairment	$ 112,805	$ 1,433	$ 76,660	$ 13,476	$152	$204,526
Collectively evaluated for impairment	1,056,205	83,839	296,920	353,765	38,341	1,829,070
Acquired with deteriorated credit quality	23,201	7,378	5,987	4,286	357	41,209
Total ending loans balance	$ 1,192,211	$ 92,650	$ 379,567	$ 371,527	$38,850	$2,074,805
At September 30, 2010						
Allowance for loan losses ending balances:						
Balance at beginning of period	$ 26,670	$ 2,454	$ 22,241	$ 10,052	$996	$62,413
Loans charged-off	(3,162)	(2,465)	(9,285)	(3,890)	(916)	(19,718)
Recoveries	146	199	598	343	142	1,428
Provision for loan losses	3,400	1,627	19,857	2,686	725	28,295
Balance at end of period	$ 27,054	$ 1,815	$ 33,411	$ 9,191	$947	$72,418
Period-end amount allocated to:						
Individually evaluated for impairment	$ 5,047	$ 207	$ 13,832	$ 2,147	$27	$21,260
Collectively evaluated for impairment	22,007	1,608	19,579	7,044	920	51,158
Acquired with deteriorated credit quality	–	–	–	–	–	–
Total ending allowance balance	$ 27,054	$ 1,815	$ 33,411	$ 9,191	$947	$72,418
Loans receivable ending balance:						
Individually evaluated for impairment	$ 34,448	$ 6,353	$ 88,591	$ 5,789	$30	135,211

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Collectively evaluated for impairment	1,236,830	103,627	469,709	457,343	44,944	2,312,453
Acquired with deteriorated credit quality	33,428	10,071	9,287	6,816	956	60,558
Total ending loans balance	$ 1,304,706	$ 120,051	$ 567,587	$ 469,948	$45,930	$2,508,222

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined 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. In estimating fair value, Southwest utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

ASC 820, *Fair Value Measurements and Disclosure*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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.

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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. This category includes U.S. Government and agency securities, residential mortgage-backed debt securities, municipal obligation securities, loans held for sale, certain private equity investments, and other real estate.
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 impaired loans, certain other real estate, goodwill, and other intangible assets.

The estimated fair value amounts have been determined by Southwest using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount Southwest could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

A description of the valuation methodologies used for assets measured at fair value on a recurring basis is as follows:

Loans held for sale − Real estate mortgage loans held for sale are carried at the lower of cost or market, which is determined on an individual loan basis. Guaranteed student loans held for sale are carried at the lower of cost or market, which is determined on an aggregate basis.

Available for sale securities − The fair value of U.S. Government and federal agency securities, equity securities, and residential mortgage-backed securities is estimated based on quoted market prices or dealer quotes. The fair value of other investments such as obligations of state and political subdivisions is estimated based on quoted market prices. The fair value of a certain private equity investment is estimated based on Southwest' s proportionate share of the net asset value, $1.2 million and $1.3 million as of September 30, 2011 and December 31, 2010, respectively. The investee invests in small and mid-sized U.S. financial institutions and other financial-related companies. This investment has a quarterly redemption with sixty-five days' notice.

Derivative instrument − Southwest utilizes an interest rate swap agreement to convert one of its variable-rate subordinated debentures to a fixed rate (cash flow hedge). The fair value of the interest rate swap agreement is obtained from dealer quotes.

The following table summarizes financial assets measured at fair value on a recurring basis.

		Fair Value Measurement at Reporting Date Using		
(Dollars in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
At September 30, 2011				
Loans held for sale:				
Student loans	$5,547	$ −	$ 5,547	$ −
One-to-four family residential	4,258	−	4,258	−
Government guaranteed commercial real estate	29,958	−	29,958	−
Government guaranteed commercial	139	−	139	−
Available for sale securities:				
U.S. Government obligations	1,102	1,102	−	−
Federal agency securities	68,387	−	68,387	−
Obligations of state and political subdivisions	1,018	−	1,018	−
Residential mortgage-backed securities	182,397	−	182,397	−
Equity securities	1,297	76	1,221	−
Derivative instrument	(2,715)	−	(2,715)	−
Total	$291,388	$ 1,178	$ 290,210	$ −

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(Dollars in thousands)	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)
At December 31, 2010				
Loans held for sale:				
Student loans	$5,843	$ –	$ 5,843	$ –
One-to-four family residential	2,300	–	2,300	–
Government guaranteed commercial real estate	26,718	–	26,718	–
Government guaranteed commercial	333	–	333	–
Available for sale securities:				
U.S. Government obligations	1,108	1,108	–	–
Federal agency securities	65,374	–	65,374	–
Obligations of state and political subdivisions	233	–	233	–
Residential mortgage-backed securities	180,017	–	180,017	–
Equity securities	1,489	222	1,267	–
Total	$283,415	$ 1,330	$ 282,085	$ –

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). These assets are recorded at the lower of cost or fair value. Valuation methodologies for assets measured on a nonrecurring basis are as follows:

Impaired loans – Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from collateral. Collateral values are estimated using Level 2 inputs based on third-party appraisals or Level 3 inputs based on customized discounting criteria. Certain other impaired loans are remeasured and reported through a specific valuation allowance allocation of the allowance for loan losses based upon the net present value of cash flows.

Other real estate – Other real estate fair value is based on third-party appraisals for significant properties less the estimated costs to sell the asset.

Goodwill – Fair value of goodwill is based on the fair value of each of Southwest' s reporting units to which goodwill is allocated compared with their respective carrying value. There has been no impairment during 2011 or 2010; therefore, no fair value adjustment was recorded through earnings.

Core deposit premiums – The fair value of core deposit premiums are based on third-party appraisals. There has been no impairment during 2011 or 2010; therefore, no fair value adjustment was recorded through earnings.

Mortgage loan servicing rights – There is no active trading market for loan servicing rights. The fair value of loan servicing rights is estimated by calculating the present value of net servicing revenue over the anticipated life of each loan. A cash flow model is used to determine fair value. Key assumptions and estimates, including projected prepayment speeds and assumed servicing costs, earnings on escrow deposits, ancillary income, and discount rates, used by this model are based on current market sources. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults, and other relevant factors. The prepayment model is updated for changes in market conditions.

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Assets measured at fair value on a nonrecurring basis are summarized below.

(Dollars in thousands)	Fair Value Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
At Septeber 30, 2011					
Noncovered impaired loans at fair value:					
Commercial real estate	$83,652	$ –	$83,652		$(8,246)
One-to-four family residential	488	–	488	–	(115)
Real estate construction	44,933	–	31,428	13,505	(11,215)
Commercial	7,624	–	7,624	–	(1,734)
Other consumer	130	–	130	–	(130)
Noncovered other real estate	70,785	–	70,785	–	(1,846)
Mortgage loan servicing rights	1,801	–	1,801	–	(78)
Total	$209,413	$ –	$195,908	$13,505	$(23,364)
At December 31, 2010					
Noncovered impaired loans at fair value:					
Commercial real estate	$43,349	$ –	$43,349	$ –	$(5,003)
One-to-four family residential	1,660	–	1,660	–	1,819
Real estate construction	42,577	–	29,072	13,505	(4,144)
Commercial	9,727	–	9,727	–	(1,214)
Other consumer	38	–	38	–	86
Noncovered other real estate	37,722	–	37,722	–	(360)
Total	$135,073	$ –	$121,568	$13,505	$(8,816)

Noncovered impaired loans measured at fair value with a carrying amount of $172.0 million were written down to a fair value of $136.8 million, resulting in a life-to-date impairment of $35.2 million, of which $21.4 million was included in the provision for loan losses for the nine months ended September 30, 2011. As of December 31, 2010, noncovered impaired loans measured at fair value with a carrying amount of $125.2 million were written down to the fair value of $97.4 million at December 31, 2010, resulting in a life-to-date impairment charge of $27.9 million, of which $8.5 million was included in the provision for loan losses for the year ended December 31, 2010.

As of September 30, 2011, noncovered other real estate assets were written down to their respective fair values, resulting in impairment charges of $1.8 million, which was included in noninterest expense for the nine months ended September 30, 2011. As of December 31, 2010, noncovered other real estate assets were written down to their respective fair values, resulting in impairment charges of $0.4 million, which was included in noninterest expense for the year ended December 31, 2010.

Mortgage loan servicing rights were written down to their fair value, resulting in impairment charges of $0.1 million, which was included in noninterest income for the nine months ended September 30, 2011.

ASC 825, *Financial Instruments*, requires an entity to provide disclosures about fair value of financial instruments, including those that are not measured and reported at fair value on a recurring or nonrecurring basis. The methodologies used in estimating the fair value of financial instruments that are measured on a recurring or nonrecurring basis are discussed above. The methodologies for the other financial instruments are discussed below:

Cash and cash equivalents − For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investment securities − The investment securities held to maturity are carried at cost. The fair value of the held to maturity securities is estimated based on quoted market prices or dealer quotes.

Loans − Fair values are estimated for certain homogenous categories of loans adjusted for differences in loan characteristics. Southwest' s loans have been aggregated by categories consisting of commercial, real estate, student, and

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other consumer. The fair value of loans is estimated by discounting the cash flows using risks inherent in the loan category and interest rates currently offered for loans with similar terms and credit risks.

Accrued interest receivable − The carrying amount is a reasonable estimate of fair value for accrued interest receivable.

Other assets − The estimated fair value of other assets, which primarily consists of investments carried at cost, prepaids, and deferred taxes, approximates their carrying values.

Deposits − The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the statement of financial condition date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other liabilities and accrued interest payable − The estimated fair value of other liabilities, which primarily includes trade accounts payable, and accrued interest payable approximates their carrying values.

Other borrowings − The fair value for fixed rate FHLB advances is based upon discounted cash flow analysis using interest rates currently being offered for similar instruments. The fair values of other borrowings are the amounts payable at the statement of financial condition date, as the carrying amount is a reasonable estimate of fair value due to the short-term maturity rates. Included in other borrowings are federal funds purchased, FHLB advances, securities sold under agreements to repurchase, and treasury tax and loan demand notes.

Subordinated debentures − Two subordinated debentures have floating rates that reset quarterly and the third subordinated debenture has a fixed rate. The fair value of the floating rate subordinated debentures approximates current book value. The fair value of the fixed rate subordinated debenture is based on market price.

The carrying values and estimated fair values of Southwest' s financial instruments follow:

	At September 30, 2011		**At December 31, 2010**	
(Dollars in thousands)	**Carrying Values**	**Fair Values**	**Carrying Values**	**Fair Values**
Cash and cash equivalents	$116,600	$116,600	$67,496	$67,496
Securities held to maturity	15,398	15,805	14,304	14,029
Securities available for sale	254,201	254,201	248,221	248,221
Total loans, net of allowance	2,010,107	1,940,928	2,354,886	2,279,605
Accrued interest receivable	8,035	8,035	8,590	8,590
Other assets	45,024	45,024	49,181	49,181
Deposits	2,022,253	1,983,253	2,252,728	2,119,840
Accrued interest payable	2,507	2,507	1,577	1,577
Other liabilities	14,877	14,877	8,981	8,981
Derivative instrument	(2,715)	(2,715)	−	−
Other borrowings	86,583	144,299	94,602	100,550
Subordinated debentures	81,963	72,303	81,963	84,654

NOTE 5: DERIVATIVE INSTRUMENTS

On February 11, 2011, Southwest entered into an interest rate swap agreement with a total notional amount of $25.0 million. The interest rate swap contract was designated as a hedging instrument in cash flow hedges with the objective of protecting the overall cash flow from Southwest' s quarterly interest payments on the SBI Capital Trust II preferred securities throughout the seven year period beginning February 11, 2011 and ending April 7, 2018 from the risk of variability of those payments resulting from changes in the three-month London Interbank Offered Rate ("LIBOR"). Under the swap, Southwest will pay a fixed interest rate of 6.15% and receive a variable interest rate of three-month LIBOR plus a margin of 2.85% on a total notional amount of $25.0 million, with quarterly settlements. The rate received by Southwest as of September 30, 2011 was 3.10%.

The estimated fair value of the interest rate derivative contract outstanding as of September 30, 2011 resulted in a loss of $2.7 million and was included in other liabilities in the statement of condition. Southwest obtained the counterparty valuation to validate its interest rate derivative contract as of September 30, 2011.

The effective portion of the gain or loss due to changes in the fair value of the derivative hedging instrument, $1.7 million for the nine months ended September 30, 2011, is included in other comprehensive income, net of tax, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is included in other noninterest income or other noninterest expense. No ineffectiveness related to the interest rate derivative was recognized during the reporting period.

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Net cash flows as a result of the interest rate swap agreement were $0.5 million for the nine months ended September 30, 2011 and were included in interest expense on subordinated debentures.

Derivative contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by Southwest' s asset/liability management committee. Southwest' s credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. There are no credit-risk-related contingent features associated with Southwest' s derivative contract.

The fair value of cash and securities posted as collateral by Southwest related to the derivative contract was $3.8 million at September 30, 2011.

NOTE 6: TAXES ON INCOME

Southwest entered into a Settlement Agreement ("the Agreement") with the Oklahoma Tax Commission ("OTC") on June 28, 2011 with respect to certain claims made by the OTC. The multi-year claims were protested by Southwest and as a result of settlement of that protest, a previously recorded reserve against those claims was released. As a result of the Agreement, Southwest paid $3.6 million of state tax expense for the years under audit and an additional $1.2 million for tax years 2008 through 2010.

The settlement of this outstanding audit closes the examination period for the years in question and removes the need for Southwest to further reserve for uncertain tax positions in accordance with ASC 740, *Income Taxes*. A reconciliation of the beginning and ending amounts of unrecognized tax benefit is as follows:

(Dollars in thousands)	
Balance at January 1, 2011	$5,333
Increases as a result of tax positions taken during current period	206
Increases as a result of tax positions taken during prior period	−
Decreases relating to settlements with taxing authorities	(5,539)
Reductions due to lapse of the applicable statute of limitations	−
Balance at September 30, 2011	$−

When analyzing the effective tax rate of a corporation, the derecognition of a reserve specific to a prior tax year(s) is treated as a discrete item in the period in which the change occurs. For the first nine months of 2011, the calculated year-to-date effective tax rate is 41.80% and results in a tax benefit.

Southwest and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions.

NOTE 7: EARNINGS PER SHARE

Earnings per common share is computed using the two-class method prescribed by ASC 260, *Earnings Per Share*. Using the two-class method, basic earnings per common share is computed based upon net income available to common shareholders divided by the weighted average number of common shares outstanding during each period, which excludes outstanding unvested restricted stock. Diluted earnings per share is computed using the weighted average number of common shares determined for the basic earnings per common share computation plus the dilutive effect of stock options using the treasury stock method. Stock options and warrants with exercise prices greater than the average market price of common shares were not included in the computation of earnings per diluted share as they would have been antidilutive. On September 30, 2011 and 2010, there were 97,526 and 240,749 antidilutive stock options to purchase common shares, respectively. An antidilutive warrant to purchase 703,753 shares of common stock was also outstanding on September 30, 2011.

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The following table sets forth the computation of basic and diluted earnings per common share:

(Dollars in thousands, except earnings per share data)	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
Numerator:				
Net income (loss)	$(9,525)	$3,873	$(10,034)	$12,656
Preferred dividend	(880)	(875)	(2,631)	(2,625)
Warrant amortization	(184)	(173)	(544)	(511)
Net income (loss) available to common shareholders	$(10,589)	$2,825	$(13,209)	$9,520
Loss (earnings) allocated to participating securities	–	(7)	–	(27)
Numerator for basic earnings per common share	$(10,589)	$2,818	$(13,209)	$9,493
Effect of reallocating undistributed earnings of participating securities	–	–	–	–
Numerator for diluted earnings per common share	$(10,589)	$2,818	$(13,209)	$9,493
Denominator:				
Denominator for basic earnings per common share -				
Weighted average common shares outstanding	19,416,460	19,342,909	19,413,505	17,342,393
Effect of dilutive securities:				
Stock options	–	18,739	–	18,257
Warrant	–	–	–	–
Denominator for diluted earnings per common share	19,416,460	19,361,648	19,413,505	17,360,650
Earnings per common share:				
Basic	$(0.54)	$0.15	$(0.68)	$0.55
Diluted	$(0.54)	$0.15	$(0.68)	$0.55

NOTE 8: OPERATING SEGMENTS

Southwest operates six principal segments: Oklahoma Banking, Texas Banking, Kansas Banking, Out of Market, 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 Out of Market segment provides lending services to customers outside Oklahoma, Texas, and Kansas. The Secondary Market segment consists of three operating units: one that provides student lending services to post-secondary students in Oklahoma and several other states, one that provides residential mortgage lending services to customers in Oklahoma, Texas, and Kansas, and one that provides United States Department of Agriculture ("USDA") government guaranteed commercial real estate lending services to rural healthcare providers. 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 or 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 used in the funds transfer pricing curve is a blend of rates based on the volume usage of retail and brokered certificates of deposit and Federal Home Loan Bank advances.

The Other Operations segment also includes SNB Wealth Management and corporate investments.

Southwest identifies reportable segments by type of service provided and geographic location. Operating results are adjusted for borrowings, allocated service costs, and management fees. 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 Out of Market segment are portfolio loans attributable to thirty-four 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.

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 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.

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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.

Beginning January 1, 2011, all segments of Southwest' s subsidiaries reported results using organizational profitability. Prior to January 1, 2011, only the segments of Stillwater National reported results using organizational profitability, while the segments of Bank of Kansas reported results using a direct profitability approach. The change in method did not materially affect segment reporting and had no impact on the consolidated results of Southwest. The amounts for the three and nine months ending September 30, 2010 have been restated using consolidated organizational profitability.

The following table summarizes financial results by operating segment:

For the Three Months Ended September 30, 2011							
(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$11,127	$8,876	$3,256	$1,393	$370	$(997)	$24,025
Provision for loan losses	3,917	14,949	498	5,262	–	–	24,626
Noninterest income	1,990	443	490	53	327	286	3,589
Noninterest expenses	7,087	4,307	3,923	943	525	908	17,693
Income (loss) before taxes	2,113	(9,937)	(675)	(4,759)	172	(1,619)	(14,705)
Taxes on income	2,106	(3,482)	(63)	(2,812)	82	(1,011)	(5,180)
Net income (loss)	$7	$(6,455)	$(612)	$(1,947)	$90	$(608)	$(9,525)

For the Three Months Ended September 30, 2010							
(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$10,449	$10,089	$3,233	$2,052	$391	$238	$26,452
Provision for loan losses	(172)	10,284	1,173	703	–	–	11,988
Noninterest income	2,035	517	583	64	505	2,631	6,335
Noninterest expenses	7,080	3,305	3,141	617	598	677	15,418
Income (loss) before taxes	5,576	(2,983)	(498)	796	298	2,192	5,381
Taxes on income	2,177	(1,181)	(192)	302	125	277	1,508
Net income (loss)	$3,399	$(1,802)	$(306)	$494	$173	$1,915	$3,873

For the Nine Months Ended September 30, 2011							
(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$34,119	$28,367	$10,288	$5,203	$1,038	$(4,584)	$74,431
Provision for loan losses	5,875	24,240	1,217	22,484	–	–	53,816
Noninterest income	5,804	1,402	1,423	161	841	811	10,442
Noninterest expenses	19,791	11,753	9,737	2,577	1,542	2,898	48,298
Income (loss) before taxes	14,257	(6,224)	757	(19,697)	337	(6,671)	(17,241)
Taxes on income	5,525	(2,424)	266	(7,787)	133	(2,920)	(7,207)
Net income (loss)	$8,732	$(3,800)	$491	$(11,910)	$204	$(3,751)	$(10,034)
Fixed asset expenditures	$81	$–	$167	$–	$5	$724	$977
Total loans at period end	770,306	845,485	252,302	166,810	39,902	–	2,074,805
Total assets at period end	802,503	858,391	274,688	173,692	42,065	421,153	2,572,492
Total deposits at period end	1,437,524	152,506	275,440	–	4,919	151,864	2,022,253

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	For the Nine Months Ended September 30, 2010						
(Dollars in thousands)	**Oklahoma Banking**	**Texas Banking**	**Kansas Banking**	**Out of Market**	**Secondary Market**	**Other Operations**	**Total Company**
Net interest income	$32,548	$31,821	$11,275	$6,552	$1,016	$(2,851)	$80,361
Provision for loan losses	1,258	22,202	3,011	1,824	–	–	28,295
Noninterest income	6,218	1,309	1,897	254	1,611	3,186	14,475
Noninterest expenses	19,999	9,875	9,680	2,077	1,659	3,532	46,822
Income (loss) before taxes	17,509	1,053	481	2,905	968	(3,197)	19,719
Taxes on income	6,866	412	169	1,138	402	(1,924)	7,063
Net income (loss)	$10,643	$641	$312	$1,767	$566	$(1,273)	$12,656
Fixed asset expenditures	$98	$40	$108	$–	$52	$527	$825
Total loans at period end	890,598	1,024,863	309,240	248,653	34,868	–	2,508,222
Total assets at period end	918,342	1,008,079	326,699	241,653	37,147	373,355	2,905,275
Total deposits at period end	1,567,186	161,202	269,090	–	4,650	343,520	2,345,648

NOTE 9: DEFERRAL OF INTEREST & DIVIDENDS

In July 2011, Southwest determined to suspend payments of interest on its three issues of outstanding debentures effective August 1, 2011 and dividends on the related trust preferred securities.

The terms of the debentures allow Southwest to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. These terms also allow Southwest to resume payments at the end of any deferral period, or to extend the deferral up to the maximum 20 quarters in total. No deferral can extend past the maturity date of the debenture.

Interest will continue to accrue on the debentures, and dividends will continue to accrue on the related trust preferred securities.

Southwest’ s trust preferred securities were issued by the following subsidiary trusts: Southwest Capital Trust II, which trades on the NASDAQ Global Select Market under the symbol “OKSBP”; OKSB Statutory Trust I; and SBI Capital Trust II. At September 30, 2011, $82.0 million of debentures were outstanding.

In addition, Southwest determined to defer payment of dividends on its Series B Preferred Securities issued under the U.S. Treasury Department’ s Capital Purchase Program, effective for the dividend payments, beginning August 15, 2011. Dividends on the Preferred Securities may not be paid while interest on Southwest’ s debentures has been deferred, but will continue to accrue. At September 30, 2011, $70.0 million of Preferred Securities were outstanding.

The deferrals on interest and dividends are intended to preserve liquidity at the holding company level, which may be used to inject funds in its bank subsidiaries or for other corporate purposes. Because the interest on the debentures, the dividends on the related trust preferred securities, and the dividends on the Preferred Securities will continue to accrue, these deferrals are not expected to have any significant effect on the net income or net income available to common shareholders of Southwest. During the year ended December 31, 2010, total interest expense on the debentures, which is deductible for income tax purposes, totaled $5.1 million, and dividends on the Preferred Securities, which are not deductible for income tax purposes, totaled $3.5 million.

NOTE 10: SUBSEQUENT EVENT

Southwest and its banking subsidiary, Stillwater National, are considering a bulk sale of loans and real estate with a carrying value of approximately $300 million. The loans and assets which may be sold are primarily nonperforming assets and potential problem loans. The process includes submission of preliminary bids by potential buyers, which were due November 1, 2011, followed by submission of binding bids later this year. Southwest and its subsidiaries are not bound to complete such a sale, and may choose not to seek binding bids, or to reject all binding bids based upon the terms of the bids received. Overall, bids are expected to reflect discounts from current asset carrying values. The amount actually sold may be substantially less than $300 million.

NOTE 11: NEW AUTHORITATIVE ACCOUNTING GUIDANCE

On January 21, 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* (“ASU 2010-06”), which amends ASC 820, *Fair Value Measurements and Disclosures,* to require a number of additional disclosures regarding fair value measurements. Specifically, entities are required to disclose: the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers;

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the reasons for any transfers in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 also amends ASC 820 to clarify certain existing disclosure requirements. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all the amendments to ASC 820 made by ASU 2010-06 were effective for Southwest on January 1, 2010, and the required disclosures are reported in Note 4. The requirement to

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separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements became effective for Southwest on January 1, 2011 and did not have a significant impact on Southwest' s financial statements.

On July 21, 2010, FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"), which amends ASC 830, *Receivables,* to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity' s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, the activity in the allowance for credit losses as well as information about modified, impaired, nonaccrual, and past due loans and credit quality indicators. ASU 2010-20, as it relates to disclosures required as of the end of a reporting period was effective for Southwest' s financial statements as of December 31, 2010. Disclosures that relate to activity during a reporting period are required for Southwest' s financial statements issued after January 1, 2011. Southwest has incorporated the required disclosures. See Note 3.

On April 5, 2011, FASB issued Accounting Standards Update No. 2011-02, *A Creditor' s Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies whether loan modifications constitute troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 is effective for Southwest' s financial statements ending September 30, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Southwest has incorporated the required disclosures. See Note 3.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement − Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). ASU 2011-04 is effective for Southwest prospectively during interim and annual periods beginning January 1, 2012. Early application by public entities is not permitted. Southwest is assessing the impact of ASU 2011-04 on our fair value disclosures.

In June 2011, FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income − Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of stockholders' equity was eliminated. ASU 2011-05 is effective for Southwest retrospectively for fiscal years, and interim periods within those years, beginning January 1, 2012, and is not expected to have a significant impact on its consolidated financial statements and disclosures.

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SOUTHWEST BANCORP, INC.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Caution About Forward-Looking Statements.

We make forward-looking statements in this Form 10-Q and documents incorporated by reference into it that are subject to risks and uncertainties. We intend these statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include:

- Statements of our goals, intentions, and expectations:
- Estimates of risks and of future costs and benefits;
- Expectations regarding our future financial performance and the financial performance of our operating segments;
- Assessments of loan quality, probable loan losses, and the amount and timing of loan payoffs;
- Assessments of liquidity, off-balance sheet risk, and interest rate risk;
- Estimates of the value of assets held for sale or available for sale; and
- Statements of our 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; changes in regulatory standards and examination policies, and a variety of other matters. These other matters include, among other things, the direct and indirect effects of 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. For other factors, risks, and uncertainties that could cause actual results to differ materially from estimates and projections contained in forward-looking statements, please read the "Risk Factors" contained in Southwest' s reports to the Securities and Exchange Commission.

The cautionary statements in this Form 10-Q and any documents incorporated by reference herein also identify important factors and possible events that involve risk and uncertainties that could cause our actual results to differ materially from those contained in the forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made. We do not intend, and undertake no obligation, to update or revise any forward-looking statements contained in this Form 10-Q, whether as a result of differences in actual results, changes in assumptions, or changes in other factors affecting such statements, except as required by law.

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.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The accounting and reporting policies followed by Southwest Bancorp, Inc. ("Southwest") conform, in all material respects, to U.S. generally accepted accounting principles ("GAAP") and to general practices within the financial services industry. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While Southwest bases estimates on historical experience, current information, and other factors deemed to be relevant, actual results could differ from those estimates.

Southwest considers accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on Southwest' s financial statements. Accounting policies related to the allowance for loan losses and goodwill and other intangible assets are considered to be critical, as these policies involve considerable subjective judgment and estimation by management.

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For additional information regarding critical accounting policies, refer to “Note 1: Summary of Significant Accounting and Reporting Policies” in the Notes to the Consolidated Financial Statements and the sections captioned “Critical Accounting Policies” and “Allowance for Loan Losses” in Management’ s Discussion and Analysis of Financial Condition and Results of

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Operations included in Southwest' s 2010 Annual Report on Form 10-K. There have been no significant changes in Southwest' s application of critical accounting policies since December 31, 2010.

GENERAL

Southwest is the bank holding company for Stillwater National Bank and Trust Company ("Stillwater National") and Bank of Kansas. Through its subsidiaries, Southwest offers commercial and consumer lending, deposit and investment services, and specialized cash management, and other financial services from offices in Oklahoma, Texas, and 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. At September 30, 2011, Southwest had total assets of $2.6 billion, deposits of $2.0 billion, and shareholders' equity of $367.0 million.

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 customers needs for speed, efficiency, and information and complement more traditional banking products. Southwest has developed a highly automated lockbox, imaging, and information service for commercial customers called "SNB Digital Lockbox" and deposit products that automatically sweep excess funds from commercial demand deposit accounts and invest them in interest bearing funds. Other 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. Information regarding Southwest is available online at www.oksb.com. Information regarding the products and services of Southwest' s subsidiaries is available online at www.banksnb.com and www.bankofkansas.com. The information on these websites is not a part of this report on Form 10-Q.

Southwest focuses on converting its strategic vision into long-term shareholder value. Our vision includes a commercial banking model and a community banking model focused on more traditional banking operations in our three-state market.

At September 30, 2011, the Texas Banking segment accounted for $845.5 million in loans, the Oklahoma Banking segment accounted for $770.3 million in loans, the Kansas Banking segment accounted for $252.3 million in loans, and the Out of Market segment accounted for $166.8 million in loans. Southwest offers products to the student, residential mortgage, and rural healthcare lending markets. These operations comprise the Secondary Market business segment. At September 30, 2011, Secondary Market loans accounted for $39.9 million in loans. 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 8: Operating Segments" in the Notes to Unaudited Consolidated Financial Statements.

FINANCIAL CONDITION

Investment Securities

Southwest' s investment security portfolio increased $7.1 million, or 3%, from $262.5 million at December 31, 2010, to $269.6 million at September 30, 2011. The increase is primarily the result of a $3.0 million, or 5%, increase in U.S. government and agency securities, a $1.9 million, or 13%, increase in tax-exempt securities, and a $2.4 million, or 1%, increase in residential mortgage-backed securities.

Loans

Total loans, including loans held for sale, were $2.1 billion at September 30, 2011, a 14% decrease from December 31, 2010. All loan categories decreased.

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

(Dollars in thousands)	September 30, 2011 Noncovered	September 30, 2011 Covered	December 31, 2010 Noncovered	December 31, 2010 Covered	Total $ Change	Total % Change
Real estate mortgage						
Commercial	$ 1,169,010	$23,201	$ 1,310,464	$30,997	$(149,250)	(11.13)%
One-to-four family residential	85,272	7,378	89,800	9,122	(6,272)	(6.34)
Real estate construction						
Commercial	348,053	5,987	441,265	6,840	(94,065)	(20.99)
One-to-four family residential	25,527	–	27,429	439	(2,341)	(8.40)
Commercial	367,241	4,286	452,626	5,554	(86,653)	(18.91)
Installment and consumer						
Guaranteed student loans	5,547	–	5,843	–	(296)	(5.07)
Other	32,946	357	39,060	676	(6,433)	(16.19)
Total loans	$ 2,033,596	$41,209	$ 2,366,487	$53,628	$(345,310)	(14.27)%

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

(Dollars in thousands)	September 30, 2011	December 31, 2010	$ Change	% Change
Loans held for sale:				
Student loans	$ 5,547	$ 5,843	$(296)	(5.07)%
One-to-four family residential	4,258	2,300	1,958	85.13
Government guaranteed commercial real estate	29,958	26,718	3,240	12.13
Government guaranteed commercial	139	333	(194)	(58.26)
Total loans held for sale	39,902	35,194	4,708	13.38
Noncovered portfolio loans	1,993,694	2,331,293	(337,599)	(14.48)
Covered portfolio loans	41,209	53,628	(12,419)	(23.16)
Total loans	$ 2,074,805	$ 2,420,115	$(345,310)	(14.27)%

Allowance for Loan Losses

Management determines the appropriate level of the allowance for loan losses using an established methodology. (See "Note 3: Loans and Allowance for Loan Losses" in the Notes to Unaudited Consolidated Financial Statements.) The allowance for loan losses is comprised of two primary components. Loans deemed to be impaired (all loans on nonaccrual or restructured) are evaluated on an individual basis using the discounted present value of expected cash flows, the fair value of collateral, or the market value of the loan, and a specific allowance is recorded based upon the result. Collateral dependent loans are evaluated for impairment based upon the fair value of the collateral. Any portion of a collateral dependent impaired loan in excess of the fair value of the collateral that is determined to be uncollectible is charged off. Loans other than impaired loans are segmented into loan pools by type of loan. The commercial real estate and real estate construction pools are further segmented by the market in which the loan collateral is based. Our primary markets are Oklahoma, Texas, and Kansas and loans secured by real estate within these markets are included in the "in-market" pool, with the remaining loans defaulting to the "out-of-market" pool. The allowance on the other loans is determined by use of historical loss ratios adjusted for qualitative internal and external risk factors.

At September 30, 2011, the allowance for loan losses was $64.7 million, a decrease of $0.5 million, or less than 1%, from the allowance for loan losses at December 31, 2010. The amount of the allowance resulted from the application of the methodology, which is designed to estimate inherent losses on total portfolio loans, including nonperforming loans.

At September 30, 2011, the allowance on the $132.3 million in noncovered nonaccrual loans was $15.5 million (12%), compared with an allowance on $106.6 million in noncovered nonaccrual loans at December 31, 2010 of $12.9 million (12%), an increase in the allowance of $2.6 million. At September 30, 2011, the allowance on the $72.3 million noncovered performing troubled debt restructured loans was $1.1 million (2%), compared with an allowance on $63.1 million in noncovered performing troubled debt restructured loans of $7.0 million (11%) at December 31, 2010, a decrease in the allowance of $5.9 million, or 84%.

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Excluding the impaired loans mentioned above, at September 30, 2011, the allowance for the remaining other noncovered loans was $48.1 million (3%), compared to $45.3 million (2%) at December 31, 2010, an increase in the allowance of $2.8 million, or 6%. The increase in the allowance related to these other noncovered loans mainly resulted from increased losses and consideration of certain trends and qualitative factors. These included management' s assessment of economic risk (particularly with respect to commercial and commercial real estate loans), and asset quality trends, including levels of potential problem loans and loan concentrations in commercial real estate mortgage and construction loans, which together comprised approximately 75% of our noncovered loans at September 30, 2011, and portfolio loss trends. Based on its analysis, management believes the amount of the allowance is appropriate. Covered loans were $41.2 million and $53.6 million as of September 30, 2011 and December 31, 2010, respectively. These loans are subject to protection under the loss sharing agreements with the FDIC and as a result of discounts on these loans; therefore they currently do not have an allowance for loan losses.

The amount of the loan loss provision for a period is based solely upon the amount needed to cause the allowance to reach the level deemed appropriate, after the effects of net charge-offs for the period. Net charge-offs for the first nine months of 2011 were $54.3 million, an increase of $36.1 million, or 197%, over the $18.3 million recorded for the first nine months of 2010. The provision for loan losses for the first nine months of 2011 was $53.8 million, representing an increase of $25.5 million, or 90%, from the $28.3 million recorded for the first nine months of 2010.

Nonperforming Loans

At September 30, 2011, the allowance for loan losses was 48.75% of noncovered nonperforming loans, compared to 60.91% of noncovered nonperforming loans, at December 31, 2010 (see "Provision for Loan Losses" on page 79). Noncovered nonaccrual loans, which comprise the majority of noncovered nonperforming loans, were $132.3 million as of September 30, 2011, an increase of $25.7 million, or 24%, from December 31, 2010. We have taken cumulative charge-offs related to these noncovered nonaccrual loans of $34.9 million as of September 30, 2011. Noncovered nonaccrual loans at September 30, 2011 were comprised of 58 relationships and were primarily concentrated in real estate construction (52%) and commercial real estate (43%) loans. All noncovered nonaccrual loans are considered impaired and are carried at their estimated collectible amounts. These noncovered loans are believed to have sufficient collateral and are in the process of being collected. Covered nonperforming loans at September 30, 2011 of $7.7 million are subject to protection under the loss share agreements with the FDIC.

	September 30, 2011		December 31, 2010	
(Dollars in thousands)	**Noncovered**	**Covered**	**Noncovered**	**Covered**
Nonaccrual loans:				
Commercial real estate	$ 56,234	$1,953	$ 29,996	$4,391
One-to-four family residential	1,433	200	1,984	932
Real estate construction	68,554	4,293	67,571	4,897
Commercial	5,895	608	6,977	581
Other consumer	152	11	38	5
Total nonaccrual loans	132,268	7,065	106,566	10,806
Past due 90 days or more:				
Commercial real estate	–	–	514	–
One-to-four family residential	273	–	–	–
Real estate construction	–	610	–	–
Commercial	185	–	–	–
Other consumer	–	–	3	–
Total past due 90 days or more	458	610	517	–
Total nonperforming loans	132,726	7,675	107,083	10,806
Other real estate	70,785	5,350	37,722	4,187
Total nonperforming assets	$ 203,511	$13,025	$ 144,805	$14,993
Performing restructured	$ 1,026	$–	$ 2,177	$–
Nonperforming assets to portfolio loans receivable and other real estate	9.86 %	27.98 %	6.11 %	25.93 %
Nonperforming loans to portfolio loans receivable	6.66 %	18.62 %	4.59 %	20.15 %
Allowance for loan losses to nonperforming loans	48.75 %	–	60.91 %	–

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At September 30, 2011 and December 31, 2010, twelve and nine credit relationships represented 68% and 70% of noncovered nonperforming loans and 44% and 52% of noncovered nonperforming assets, respectively. As of September 30, 2011, these credit relationships were all collateral dependent and commercial real estate lending relationships with aggregate principal balances of $90.3 million and related impairment reserves of $12.3 million. Aggregate charge-offs for these twelve and nine relationships were $12.3 million and $7.1 million as of September 30, 2011 and December 31, 2010, respectively.

Noncovered performing loans considered potential problem loans, loans which are not included in the past due or nonaccrual categories but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms, amounted to approximately $276.7 million at September 30, 2011, compared to $233.1 million at December 31, 2010. Substantially all of these loans were performing in accordance with their present terms at September 30, 2011. Included in this total are $72.1 million loans that are considered performing troubled debt restructured loans as a result of a modification in terms due to a weakening in the financial position of the borrower. Additionally, there are $2.0 million and $3.5 million, respectively, of covered potential problem loans, which are subject to protection under the loss share agreements with the FDIC. 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, 2011, the reserve for unfunded loan commitments was $2.2 million, a $0.4 million, or 20%, increase from the amount at December 31, 2010. Management believes the amount of the reserve is appropriate. The increased amount is the result of consideration of increased losses and certain trends and qualitative factors.

Deposits and Other Borrowings

Southwest' s deposits were $2.0 billion and $2.3 billion at September 30, 2011 and December 31, 2010, respectively. The following table presents the trends in the composition of deposits at the dates indicated:

(Dollars in thousands)	September 30, 2011	December 31, 2010	$ Change	% Change
Noninterest-bearing demand	$ 388,365	$ 377,182	$ 11,183	2.96 %
Interest-bearing demand	98,270	92,584	5,686	6.14
Money market accounts	461,546	495,253	(33,707)	(6.81)
Savings accounts	31,319	26,665	4,654	17.45
Time deposits of $100,000 or more	551,914	694,565	(142,651)	(20.54)
Other time deposits	490,839	566,479	(75,640)	(13.35)
Total deposits	$ 2,022,253	$ 2,252,728	$ (230,475)	(10.23)%

Stillwater National has substantial unused borrowing availability in the form of unsecured brokered certificate of deposits from Bank of America Merrill Lynch, Citigroup Global Markets, Inc., Wells Fargo Bank, NA, UBS Securities, LLC, RBC Capital Markets Corp., and Morgan Stanley & Co., Inc. in connection with its retail certificate of deposit program. At September 30, 2011, $25 million in these retail certificates of deposit were included in time deposits of $100,000 or more, a decrease of $85 million, or 77%, from December 31, 2010.

Stillwater National has other brokered certificates of deposit totaling $0.7 million and $1.0 million as of September 30, 2011 and December 31, 2010, respectively, included in time deposits of $100,000 or more in the above table.

Other borrowings, which includes short-term federal funds purchased, FHLB borrowings, and repurchase agreements, decreased $8.0 million, or 8%, to $86.6 million during the first nine months of 2011. The decrease reflects the changes in the need for other funding based on lending activities for the period.

Shareholders' Equity

Shareholders' equity decreased $10.8 million, or 3%, due to a loss of $10.0 million and preferred dividends declared totaling $2.6 million for the first nine months of 2011. Net unrealized holding gains on available for sale investment securities and derivative instruments (net of tax) increased to $2.7 million at September 30, 2011, compared to $1.0 million at December 31, 2010.

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At September 30, 2011, Southwest, Stillwater National, and Bank of Kansas continued to exceed all applicable regulatory capital requirements. See "Capital Requirements" on page 81.

RESULTS OF OPERATIONS

FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2011 and 2010

Net loss available to common shareholders for the third quarter of 2011 of $10.6 million represented a decrease of $13.4 million from the $2.8 million net income available to common shareholders earned in the third quarter of 2010. Diluted earnings per share were $(0.54), compared to $0.15. The decrease in quarterly net income available to common shareholders was the result of a $12.6 million, or 105%, increase in the provision for loan losses, a $2.4 million, or 9%, decrease in net interest income, a $2.7 million, or 43%, decrease in noninterest income, and a $2.3 million, or 15%, increase in noninterest expense, offset in part by a $6.7 million, or 444% decrease in income taxes.

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 net charge-offs for the period. The necessary provision for third quarter of 2011 was $12.6 million more than the provision required for third quarter of 2010. (See "Note 3: Loans and Allowance for Loan Losses" in the Notes to Unaudited Consolidated Financial Statements and "Provision for Loan Losses" on page 79.)

On an operating segment basis, the decrease in net income was the net result of a $4.7 million decrease in net income from the Texas Banking segment, a $3.4 million decrease in net income from the Oklahoma Banking segment, a $2.4 million increase in net loss from the Out of Market segment, a $2.5 million increase in net loss from the Other Operations segment, and a $0.3 million increase in net loss from the Kansas Banking segment.

Net Interest Income

	For the three months ended September 30,			
(Dollars in thousands)	**2011**	**2010**	**$ Change**	**% Change**
Interest income:				
Loans	$27,873	$32,824	$(4,951)	(15.08)%
Investment securities:				
U.S. government and agency obligations	366	526	(160)	(30.42)
Mortgage-backed securities	1,298	1,430	(132)	(9.23)
State and political subdivisions	103	61	42	68.85
Other securities	12	62	(50)	(80.65)
Other interest-earning assets	131	180	(49)	(27.22)
Total interest income	29,783	35,083	(5,300)	(15.11)
Interest expense:				
Interest-bearing demand deposits	102	111	(9)	(8.11)
Money market accounts	507	976	(469)	(48.05)
Savings accounts	11	15	(4)	(26.67)
Time deposits of $100,000 or more	1,680	3,128	(1,448)	(46.29)
Other time deposits	1,511	2,572	(1,061)	(41.25)
Other borrowings	469	524	(55)	(10.50)
Subordinated debentures	1,478	1,305	173	13.26
Total interest expense	5,758	8,631	(2,873)	(33.29)
Net interest income	$24,025	$26,452	$(2,427)	(9.18)%

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. Net interest income is affected by changes in market interest rates because different types of assets and liabilities may react differently and at different times to 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.

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Yields on Southwest' s interest-earning assets decreased 15 basis points, while the rates paid on Southwest' s interest-bearing liabilities decreased 30 basis points, resulting in an increase in the interest rate spread to 3.44% for the third quarter of 2011 from 3.29% for the third quarter of 2010. During the same periods, annualized net interest margin was 3.77% and 3.63%, respectively, and the ratio of average interest-earning assets to average interest-bearing liabilities increased to 135.92% from 129.13%. Included in both the third quarter of 2011 and the third quarter of 2010 was a net reduction of $0.3 million resulting from interest reversal on nonaccrual loans offset by the quarterly adjustment of the discount accretion on loans and the loss share receivable. The net effects of these reductions on net interest margin were a 3 basis point decrease for third quarter of 2011 and the third quarter of 2010.

The decrease in total interest income was primarily the result of the decrease in average loans. Southwest' s average loans decreased $372.1 million, or 15%, and the related yield decreased to 5.09% for the third quarter of 2011 from 5.12% for the third quarter of 2010. During the same period, average investment securities increased $22.3 million, or 9%; however, the related yield decreased to 2.62% from 3.34% in 2010. Average other interest earning assets decreased $11.9 million, or 12% and the related yield decreased to 0.59% for the third quarter of 2011 from 0.72% for the third quarter of 2010.

The decrease in total interest expense can be attributed to the decrease in rates paid on interest-bearing liabilities and the effects of a $377.9 million, or 17%, decrease in average interest-bearing liabilities. Southwest' s average total interest-bearing deposits decreased $374.7 million, or 18%, and the related rates paid for interest expense decreased to 0.93% for the third quarter of 2011 from 1.31% for the third quarter of 2010. Average other borrowings decreased $3.2 million, or 3%, and the related rates paid for interest expense decreased to 2.07% for the third quarter of 2011 from 2.23% for the third quarter of 2010.

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.

(Dollars in thousands)	For the three months ended September 30, 2011 vs. 2010		
	Increase Or (Decrease)	Due to Change In Average: Volume	Rate
Interest earned on:			
Noncovered loans receivable (1)	$(4,631)	$(5,191)	$560
Covered loans receivable	(320)	(442)	122
Investment securities (1)	(300)	235	(535)
Other interest-earning assets	(49)	(61)	12
Total interest income	(5,300)	(5,272)	(28)
Interest paid on:			
Interest-bearing demand	(9)	19	(28)
M oney market accounts	(469)	(62)	(407)
Savings accounts	(4)	3	(7)
Time deposits	(2,509)	(1,272)	(1,237)
Other borrowings	(55)	(17)	(38)
Subordinated debentures	173	−	173
Total interest expense	(2,873)	(1,325)	(1,548)
Net interest income	$(2,427)	$(3,947)	$1,520

(1) Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material

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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.

(Dollars in thousands)	For the three months ended September 30, 2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Assets						
Noncovered loans (1) (2)	$2,127,291	$27,160	5.07 %	$2,477,413	$31,791	5.09 %
Covered loans (1)	44,018	713	6.43	65,999	1,033	6.21
Investment securities (2)	269,143	1,779	2.62	246,838	2,079	3.34
Other interest-earning assets	87,649	131	0.59	99,500	180	0.72
Total interest-earning assets	2,528,101	29,783	4.67	2,889,750	35,083	4.82
Other assets	121,115			76,570		
Total assets	$2,649,216			$2,966,320		
Liabilities and shareholders' equity						
Interest-bearing demand deposits	$111,805	$102	0.36 %	$93,481	$111	0.47 %
M oney market accounts	480,817	507	0.42	515,754	976	0.75
Savings accounts	30,467	11	0.14	25,306	15	0.24
Time deposits	1,065,019	3,191	1.19	1,428,247	5,700	1.58
Total interest-bearing deposits	1,688,108	3,811	0.93	2,062,788	6,802	1.31
Other borrowings	89,964	469	2.07	93,136	524	2.23
Subordinated debentures	81,963	1,478	7.21	81,963	1,305	6.37
Total interest-bearing liabilities	1,860,035	5,758	1.23	2,237,887	8,631	1.53
Noninterest-bearing demand deposits	375,465			330,321		
Other liabilities	32,447			16,960		
Shareholders' equity	381,269			381,152		
Total liabilities and shareholders' equity	$2,649,216			$2,966,320		
Net interest income and interest rate spread		$24,025	3.44 %		$26,452	3.29 %
Net interest margin (3)			3.77 %			3.63 %
Ratio of average interest-earning assets to average interest-bearing liabilities	135.92 %			129.13 %		

(1) Average balances include nonaccrual loans. Fees included in interest income on loans receivable are not considered material.

(2) Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material.

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

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Noninterest Income

(Dollars in thousands)	For the three months ended September 30, 2011	2010	$ Change%	Change
Noninterest income:				
Other service charges	$2,588	$2,659	$ (71)	(2.67)%
Other fees	529	335	194	57.91
Other noninterest income	46	83	(37)	(44.58)
Gain on sales of loans:				
Student loan sales	318	595	(277)	(46.55)
One-to-four family residential	(1)	36	(37)	(102.78)
All other loan sales	109	22	87	395.45
Gain on sale/call of investment securities	–	2,605	(2,605)	(100.00)
Total noninterest income	$3,589	$6,335	$ (2,746)	(43.35)%

The decrease in other service charges is primarily the result of decreased overdraft service charges. Other fees increased as a result of increased brokerage fees and decreased amortization of mortgage servicing rights as a result of decreased prepayment speeds. Other noninterest income declined as a result of loss share adjustments of prior recoveries related to acquired loans.

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 sale/call of investment securities includes a $2.5 million gain recognized as the result of the sale of investment securities during the third quarter of 2010.

Noninterest Expense

(Dollars in thousands)	For the three months ended September 30, 2011	2010	$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	$7,734	$7,183	$551	7.67 %
Occupancy	2,694	2,835	(141)	(4.97)
FDIC and other insurance	824	1,347	(523)	(38.83)
Other real estate (net)	1,445	228	1,217	533.77
Unfunded loan commitment reserve	305	(294)	599	(203.74)
Other general and administrative	4,691	4,119	572	13.89
Total noninterest expense	$17,693	$15,418	$2,275	14.76 %

Salaries and employee benefits increased primarily as a result of increased salary expense. The number of full-time equivalent employees did not change from 437 at the beginning of the third quarter of 2011. For the third quarter of 2010, the number of full-time equivalent employees decreased from 447 at the beginning of the quarter to 440 as of September 30, 2010.

Southwest' s financial institution subsidiaries pay deposit insurance premiums to the FDIC based on assessment rates. The decrease from prior year is the result of the decrease in average deposits.

The increase in other real estate net expenses is the result of $1.2 million in current period write-downs to fair market values of noncovered other real estate.

The unfunded loan commitment reserve expense increased as a result of the application of our methodology to calculate the reserve.

The increase in other general and administrative expense is primarily the result of increased collection costs of $0.9 million, offset by decreased consulting fees of $0.4 million.

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FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

Net loss available to common shareholders for the nine months ended September 30, 2011 of $13.2 million represented a decrease of $22.7 million, or 239%, from the $9.5 million of net income available to common shareholders earned in the nine months ended September 30, 2010. Diluted earnings per share were $(0.68) compared to $0.55, a 224% decrease. The decrease in net income available to common shareholders was primarily the result of a $25.5 million, or 90%, increase in the provision for loan losses, a $5.9 million, or 7%, decrease in net interest income, a $4.0 million, or 28%, decrease in noninterest income, and a $1.5 million, or 3%, increase in noninterest expense, offset in part by a $14.3 million, or 202%, decrease in income tax expense.

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 as of September 30, 2011 was $25.5 million more than the provision required as of September 30, 2010. (See Note 3: "Loans and Allowance for Loan Losses" in the Notes to Unaudited Consolidated Financial Statements and "Provision for Loan Losses" on page 79.)

On an operating segment basis, the decrease in net income was the result of a $13.7 million decrease in income from the Out of Market segment, a $4.4 million decrease in net income from the Texas Banking segment, a $2.5 million increase in net loss from the Other Operation segment, a $1.9 million decrease in net income from the Oklahoma Banking segment, and a $0.4 million decrease in income from the Secondary Market segment, offset in part by a $0.2 million increase in net income from the Kansas Banking segment.

Net Interest Income

	For the nine months ended September 30,			
(Dollars in thousands)	**2011**	**2010**	**$ Change%**	**Change**
Interest income:				
Loans	$87,890	$101,087	$ (13,197)	(13.06)%
Investment securities:				
U.S. government and agency obligations	1,152	1,675	(523)	(31.22)
Mortgage-backed securities	3,868	4,329	(461)	(10.65)
State and political subdivisions	282	203	79	38.92
Other securities	87	217	(130)	(59.91)
Other interest-earning assets	401	610	(209)	(34.26)
Total interest income	93,680	108,121	(14,441)	(13.36)
Interest expense:				
Interest-bearing demand deposits	329	383	(54)	(14.10)
Money market accounts	1,766	3,026	(1,260)	(41.64)
Savings accounts	37	47	(10)	(21.28)
Time deposits of $100,000 or more	6,106	10,669	(4,563)	(42.77)
Other time deposits	5,237	8,222	(2,985)	(36.31)
Other borrowings	1,460	1,565	(105)	(6.71)
Subordinated debentures	4,314	3,848	466	12.11
Total interest expense	19,249	27,760	(8,511)	(30.66)
Net interest income	$74,431	$80,361	$ (5,930)	(7.38)%

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 12 basis points, while the rates paid on Southwest' s interest-bearing liabilities decreased 27 basis points, resulting in an increase in the interest rate spread to 3.45% for the first nine months of

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2011 from 3.30% for the first nine months of 2010. During the same periods, annualized net interest margin was 3.78% and 3.63%, respectively, and the ratio of average interest-earning assets to average interest-bearing liabilities increased to 134.41% from 126.14%. Included in net interest income for the first nine months of 2011 was a net reduction of $0.4 million resulting from interest reversals on nonaccrual loans offset by the year-to-date adjustments of the discount accretion on loans and the loss share receivable. Included in net interest income for the first nine months of 2010 was a recovery of $0.5 million in interest from the resolution of nonperforming loans and additional discount accretion on loans and loss share receivable, offset in part by interest reversals on nonaccrual loans. The net effects of these adjustments on net interest margin were a 2 basis point decrease and a 3 basis point increase, respectively.

The decrease in interest income was primarily the result of the decrease in average loans. Southwest' s average loans decreased $324.3 million, or 12%, and the related yield decreased to 5.15% for the first nine months of 2011 from 5.19% in 2010. During the same period, average investment securities increased $21.4 million, or 9%; however, the related yield decreased to 2.73% from 3.54% in 2010. Average other interest earning assets decreased $26.9 million, and the related yield decreased to 0.61% for the first nine months of 2011 from 0.71% in 2010.

The decrease in total interest expense can be attributed to the decrease in the rates paid on interest-bearing liabilities and the effects of a $390.0 million, or 17%, decrease in average interest-bearing liabilities. Southwest' s total interest-bearing deposits decreased $383.3 million, or 18%, and the related rates paid for interest expense decreased to 1.05% for the first nine months of 2011 from 1.38% in 2010. Average other borrowings decreased $6.7 million, or 7%; however, the related rates paid for interest expense remained flat at 2.18% for first nine months of 2011 and the first nine months of 2010.

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.

(Dollars in thousands)	**For the nine months ended September 30, 2011 vs. 2010**		
	Increase Or (Decrease)	**Due to Change In Average: Volume**	**Rate**
Interest earned on:			
Noncovered loans receivable (1)	$(12,015)	$(11,438)	$(577)
Covered loans receivable	(1,182)	(1,323)	141
Investment securities (1)	(1,035)	530	(1,565)
Other interest-earning assets	(209)	(131)	(78)
Total interest income	(14,441)	(11,789)	(2,652)
Interest paid on:			
Interest-bearing demand	(54)	33	(87)
Money market accounts	(1,260)	(121)	(1,139)
Savings accounts	(10)	6	(16)
Time deposits	(7,548)	(4,126)	(3,422)
Other borrowings	(105)	(110)	5
Subordinated debentures	466	—	466
Total interest expense	(8,511)	(4,223)	(4,288)
Net interest income	$(5,930)	$(7,566)	$1,636

(1) Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material.

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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.

(Dollars in thousands)	For the nine months ended September 30, 2011			2010		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Assets						
Noncovered loans (1) (2)	$2,234,219	$85,366	5.11 %	$2,533,490	$97,381	5.14 %
Covered loans (1)	$47,619	$2,524	7.09	72,676	3,706	6.82
Investment securities (2)	264,004	5,389	2.73	242,629	6,424	3.54
Other interest-earning assets	87,729	401	0.61	114,629	610	0.71
Total interest-earning assets	2,633,571	93,680	4.76	2,963,424	108,121	4.88
Other assets	102,042			74,199		
Total assets	$2,735,613			$3,037,623		
Liabilities and shareholders' equity						
Interest-bearing demand deposits	$112,394	$329	0.39 %	$102,843	$383	0.50 %
Money market accounts	487,522	1,766	0.48	508,742	3,026	0.80
Savings accounts	29,131	37	0.17	25,515	47	0.25
Time deposits	1,158,922	11,343	1.31	1,534,135	18,891	1.65
Total interest-bearing deposits	1,787,969	13,475	1.05	2,171,235	22,347	1.38
Other borrowings	89,384	1,460	2.18	96,099	1,565	2.18
Subordinated debentures	81,963	4,314	7.02	81,963	3,848	6.26
Total interest-bearing liabilities	1,959,316	19,249	1.31	2,349,297	27,760	1.58
Noninterest-bearing demand deposits	370,145			318,609		
Other liabilities	23,510			17,629		
Shareholders' equity	382,642			352,088		
Total liabilities and shareholders' equity	$2,735,613			$3,037,623		
Net interest income and interest rate spread		$74,431	3.45 %		$80,361	3.30 %
Net interest margin (3)			3.78 %			3.63 %
Ratio of average interest-earning assets to average interest-bearing liabilities	134.41 %			126.14 %		

(1) Average balances include nonaccrual loans. Fees included in interest income on loans receivable are not considered material.

(2) Interest on tax-exempt loans and securities is not shown on a tax-equivalent basis because it is not considered material.

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

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Noninterest Income

(Dollars in thousands)	For the nine months ended September 30, 2011	2010	$ Change	% Change
Noninterest income:				
Other service charges	$7,690	$8,140	$(450)	(5.53)%
Other fees	1,536	1,120	416	37.14
Other noninterest income	195	515	(320)	(62.14)
Gain on sales of loans:				
Student loan sales	788	1,228	(440)	(35.83)
One-to-four family residential	(1)	709	(710)	(100.14)
All other loan sales	234	117	117	100.00
Gain on sale/call of investment securities	–	2,646	(2,646)	(100.00)
Total noninterest income	$10,442	$14,475	$(4,033)	(27.86)%

The decrease in other service charges is primarily the result of decreases in overdraft service charges of $0.5 million. Other fees increased primarily as a result of increased loan servicing fees of $0.2 million, increased brokerage fees of $0.1 million, and decreased amortization of mortgage servicing rights of $0.2 million as a result of decreased prepayment speeds. Other noninterest income decreased as a result of decreased loss share adjustment of recoveries related to acquired loans and the prior year income included $0.2 million from the sale of trust operations.

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 sale/call of investment securities includes a $2.5 million gain recognized as the result of the sale of investment securities during the first nine months of 2010.

Noninterest Expense

(Dollars in thousands)	For the nine months ended September 30, 2011	2010	$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	$22,223	$22,400	$(177)	(0.79)%
Occupancy	8,201	8,454	(253)	(2.99)
FDIC and other insurance	3,004	4,455	(1,451)	(32.57)
Other real estate (net)	4,483	963	3,520	365.52
Unfunded loan commitment reserve	378	(1,271)	1,649	(129.74)
Other general and administrative	10,009	11,821	(1,812)	(15.33)
Total noninterest expense	$48,298	$46,822	$1,476	3.15 %

Salaries and employee benefits decreased primarily as a result of a decrease in the profit sharing contribution. The number of full-time equivalent employees for the first nine months increased from 432 at the beginning of the year to 437 as of September 30, 2011. For the first nine months of 2010, the number of full-time equivalent employees decreased from 466 at the beginning of the year to 432 as of September 30, 2010.

Southwest' s bank subsidiaries pay deposit insurance premiums to the FDIC based on assessment rates. The decrease from prior year is the result of the decrease in average deposits.

The increase in other real estate net expenses is includes a provision for other real estate of $0.5 million and $1.8 million in current period write-downs to fair market values of noncovered other real estate.

The increase in the unfunded loan commitment reserve expense resulted from the application of our reserve methodology.

The decrease in other general and administrative expense is primarily the result of the settlement of Oklahoma state tax claims for less than the amount accrued, of $2.5 million, offset by increased loan collection costs of $0.9 million.

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Provisions for Loan Losses

Southwest records provisions for loan losses in amounts necessary to maintain the allowance for loan losses at the levels Southwest determines are appropriate. (See "Note 3: Loans and Allowance for Loan Losses" in the Notes to Unaudited Consolidated Financial Statements.)

The allowance for loan losses of $64.7 million at September 30, 2011 decreased $0.5 million, or less than 1%, from year-end 2010. The decrease in the allowance for loan losses is a result of the $54.3 million in net charge-offs incurred in the first nine months of 2011, offset by the $53.8 million provision for loan losses recorded in the first nine months of 2011. The year-to-date provision for loan losses increased $25.5 million, or 90%, from the first nine months of 2010. The increase in the provision for loan losses was the result of the calculations of the appropriate allowance at each period end. (See "Note 3: Loans and Allowance for Loan Losses" in the Notes to Unaudited Consolidated Financial Statements and "Loans" on page 56.)

Taxes on Income

Southwest entered into a Settlement Agreement ("the Agreement") with the Oklahoma Tax Commission ("OTC") on June 28, 2011 with respect to certain claims made by the OTC. For additional information, please see "Note 6: Taxes on Income" in the Notes to the Unaudited Consolidated Financial Statements on page 47.

Southwest' s income tax benefit was $7.2 million for the first nine months of 2011 compared to tax expense of $7.1 million for the first nine months of 2010, a decrease of $14.3 million, or 202%. The decrease in the income tax expense is the result of decreased income.

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, and Bank of 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") and 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 $1.3 million at September 30, 2011. Stillwater National has approved federal funds purchase lines totaling $211.5 million with six banks; there was no outstanding balance on these lines at September 30, 2011. 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 $84.5 million. As of September 30, 2011, no borrowings were made through the BIC program. In addition, Stillwater National has available a $413.9 million line of credit and Bank of Kansas has a $57.8 million line of credit from the FHLB. Borrowings under the FHLB lines are secured by investment securities and loans. At September 30, 2011, the Stillwater National FHLB line of credit had an outstanding balance of $40.0 million, and the Bank of Kansas line of credit had an outstanding balance of $5.0 million.

(See also "Deposits and Other Borrowings" on page 61 for funds available on brokered certificate of deposit lines of credit and "Note 8: Operating Segments" in the Notes to Unaudited Consolidated Financial Statements for a discussion on Southwest' s funds management unit.)

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 $40.3 million and $22.2 million as of September 30, 2011 and September 30, 2010, respectively.

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At September 30, 2011, $215.5 million of the total carrying value of investment securities of $269.6 million were pledged as collateral to secure public and trust deposits, sweep agreements, and borrowings from the FHLB. Any amount over pledged can be released at any time.

During the first nine months of 2011, no category of short-term borrowings had an average balance that exceeded 30% of ending shareholders' equity.

During the first nine months of 2011, cash and cash equivalents increased by $49.1 million, or 73%, to $116.6 million. This increase was the net result of cash provided from investing activities of $251.8 million (primarily from net repayments of loans and proceeds from repayments, call and maturities of securities) and cash provided by operating activities of $37.6 million, offset in part by cash used in financing activities of $240.3 million (primarily from decreases in deposits).

During the first nine months of 2010, cash and cash equivalents decreased by $29.4 million, or 25%, to $89.5 million. This decrease was the net result of cash used in financing activities of $216.4 million (primarily from decreases in deposits), offset in part by cash provided from investing activities of $112.0 million (primarily net repayments of loans and proceeds from repayments, calls and maturities of available for sale securities) and cash provided by operating activities of $75.0 million.

As of September 30, 2011, the holding company has $29.2 million in available cash.

CAPITAL REQUIREMENTS

Bank holding companies are required to maintain capital ratios set by the Federal Reserve Bank in its Risk-Based Capital Guidelines. At September 30, 2011, Southwest exceeded all applicable capital requirements, having a total risk-based capital ratio of 20.81%, a Tier I risk-based capital ratio of 19.54%, and a leverage ratio of 16.47%. As of September 30, 2011, Stillwater National and Bank of 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, or Bank of Kansas by bank regulators.

On January 27, 2010, Stillwater National informally agreed with the Office of the Comptroller of the Currency, its primary federal regulator, to maintain a ratio of capital to risk weighted assets of at least 12.5% and a Tier 1 leverage ratio of at least 8.5%. As of September 30, 2011, Stillwater National had a capital to risk weighted assets ratio of 19.14% and a Tier 1 leverage ratio of 14.88%.

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.

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ITEM 3. 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 forecast net income. Actual results differ from simulated results due to timing of cash flows, the magnitude and frequency of interest rate changes, and 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.

Changes in Interest Rates:	+ 300 bp	+200 bp	+100 bp
Policy Limit	(18.00)%	(10.00)%	(5.00)%
September 30, 2011	(1.31)%	(4.29)%	(4.25)%
December 31, 2010	1.58 %	(2.77)%	(3.30)%

The current overnight rate as established by the Federal Open Market Committee is in the 0% to 0.25% range. Southwest believes that all down rate scenarios are impractical since they would result in an overnight rate of less than 0%. As a result, the down 100 bp, down 200 bp, and down 300 bp scenarios have been excluded. Net interest income at risk increased in each of the rising interest rate scenarios when compared to the December 31, 2010 risk position. Southwest' s greatest exposure to changes in interest rate is in the +200 bp scenario with a decline in net interest income of (4.29%) at September 30, 2011, a 1.52 percentage point decline from the December 31, 2010 level of (2.77%). 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.

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Changes in Interest Rates:	+300 bp	+200 bp	+100 bp
Policy Limit	(35.00)%	(20.00)%	(10.00)%
September 30, 2011	2.40 %	1.64 %	0.57 %
December 31, 2010	(2.15)%	(1.35)%	(0.47)%

As of September 30, 2011, the economic value of equity measure improved in each of the three rising interest rate scenarios when compared to the December 31, 2010 percentages. Southwest' s greatest improvement to economic value of equity can be found in the +300 bp scenario. The +300 bp scenario was 2.40% on September 30, 2011, a 4.55 percentage point increase over the December 31, 2010 value of (2.15%). The economic value of equity ratio in all scenarios remains well within Southwest' s asset/liability management policy limits.

* * * * * * *

ITEM 4. 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, 2011. 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, 2011.

First Nine Months of 2011 Changes in Internal Control over Financial Reporting

No change occurred during the first nine months of 2011 that has materially affected, or is reasonably likely to materially affect, Southwest' s internal control over financial reporting.

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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 2011 from those disclosed in Southwest' s Form 10-K for the year ended December 31, 2010.

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, 2011.

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 three months ended September 30, 2011.

Item 3: **Defaults upon senior securities**

See current Report on Form 8-K dated July 25, 2011 with respect to planned arrearage on Southwest Bancorp Inc.' s Fixed Rate Cumulative Perpetual Preferred Stock, Series B.

Item 4: **(removed and reserved)**

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

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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 4, 2011
	Rick Green President and Chief Executive Officer (Principal Executive Officer)	Date
By:	/s/ Laura Robertson	November 4, 2011
	Laura Robertson Executive Vice President, Chief Financial Officer (Principal Financial Officer)	Date

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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 4, 2011

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

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Exhibit 31(b)
Rule 13a-14(a)/15d-14(a) Certification

I, Laura Robertson, 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 4, 2011

/s/ Laura Robertson
Laura Robertson
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

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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 three and nine month periods ended September 30, 2011, 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	November 4, 2011
Rick Green President and Chief Executive Officer (Principal Executive Officer)	Date

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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 three and nine month periods ended September 30, 2011, 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/ Laura Robertson — November 4, 2011

Laura Robertson
Executive Vice President,
Chief Financial Officer
(Principal Financial Officer)

Date

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Consolidated Statements of Financial Condition (Unaudited) (Parenthetical) (USD $) In Thousands, except Share data	Sep. 30, 2011	Dec. 31, 2010
Assets:		
Held to maturity securities, fair value	$ 15,805	$ 14,029
Available for sale securities, amortized cost	247,094	246,649
Covered loans receivable, loss share	$ 10,976	$ 14,370
Shareholders' equity:		
Serial preferred stock, par value	$ 1,000	$ 1,000
Serial preferred stock, shares authorized	2,000,000	2,000,000
Serial preferred stock, shares issued	70,000	70,000
Serial preferred stock, shares outstanding	70,000	70,000
Common stock, par value	$ 1	$ 1
Common stock, shares authorized	40,000,000	40,000,000
Common stock, shares issued	19,441,577	19,421,900
Common stock, shares outstanding	19,441,577	19,421,900

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Consolidated Statements of Operations (Unaudited) (USD $) In Thousands, except Per Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Interest income:				
Interest and fees on loans	$ 27,873	$ 32,824	$ 87,890	$ 101,087
Investment securities:				
U.S. Government and agency obligations	366	526	1,152	1,675
Mortgage-backed securities	1,298	1,430	3,868	4,329
State and political subdivisions	103	61	282	203
Other securities	12	62	87	217
Other interest-earning assets	131	180	401	610
Total interest income	29,783	35,083	93,680	108,121
Interest expense:				
Interest-bearing demand	102	111	329	383
Money market accounts	507	976	1,766	3,026
Savings accounts	11	15	37	47
Time deposits of $100,000 or more	1,680	3,128	6,106	10,669
Other time deposits	1,511	2,572	5,237	8,222
Other borrowings	469	524	1,460	1,565
Subordinated debentures	1,478	1,305	4,314	3,848
Total interest expense	5,758	8,631	19,249	27,760
Net interest income	24,025	26,452	74,431	80,361
Provision for loan losses	24,626	11,988	53,816	28,295
Net interest income (loss) after provision for loan losses	(601)	14,464	20,615	52,066
Noninterest income:				
Service charges and fees	3,117	2,994	9,226	9,260
Other noninterest income	46	83	195	515
Gain on sales of loans, net	426	653	1,021	2,054
Gain on sale/call of investment securities, net		2,605		2,646
Total noninterest income	3,589	6,335	10,442	14,475
Noninterest expense:				
Salaries and employee benefits	7,734	7,183	22,223	22,400
Occupancy	2,694	2,835	8,201	8,454
FDIC and other insurance	824	1,347	3,004	4,455
Other real estate, net	1,445	228	4,483	963
General and administrative	4,996	3,825	10,387	10,550
Total noninterest expense	17,693	15,418	48,298	46,822
Income (loss) before taxes	(14,705)	5,381	(17,241)	19,719
Taxes on income	(5,180)	1,508	(7,207)	7,063
Net income (loss)	(9,525)	3,873	(10,034)	12,656
Net income (loss) available to common shareholders	$ (10,589)	$ 2,825	$ (13,208)	$ 9,520
Basic earnings per common share	$ (0.54)	$ 0.15	$ (0.68)	$ 0.55

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Diluted earnings per common share	$ (0.54)	$ 0.15	$ (0.68)	$ 0.55
Cash dividends declared per share				

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Document and Entity Information (USD $) In Millions, except Share data	9 Months Ended		
	Sep. 30, 2011	Nov. 04, 2011	Jun. 30, 2010
Document and Entity Information [Abstract]			
Entity Registrant Name	SOUTHWEST BANCORP INC		
Entity Central Index Key	0000914374		
Document Type	10-Q		
Document Period End Date	Sep. 30, 2011		
Amendment Flag	false		
Document Fiscal Year Focus	2011		
Document Fiscal Period Focus	Q3		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Accelerated Filer		
Entity Public Float			$ 243.5
Entity Common Stock, Shares Outstanding		19,443,800	

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Derivative Instruments	9 Months Ended Sep. 30, 2011
Derivative Instruments [Abstract]	
DERIVATIVE INSTRUMENTS	**NOTE 5: DERIVATIVE INSTRUMENTS** On February 11, 2011, Southwest entered into an interest rate swap agreement with a total notional amount of $25.0 million. The interest rate swap contract was designated as a hedging instrument in cash flow hedges with the objective of protecting the overall cash flow from Southwest's quarterly interest payments on the SBI Capital Trust II preferred securities throughout the seven year period beginning February 11, 2011 and ending April 7, 2018 from the risk of variability of those payments resulting from changes in the three-month London Interbank Offered Rate ("LIBOR"). Under the swap, Southwest will pay a fixed interest rate of 6.15% and receive a variable interest rate of three-month LIBOR plus a margin of 2.85% on a total notional amount of $25.0 million, with quarterly settlements. The rate received by Southwest as of September 30, 2011 was 3.10%. The estimated fair value of the interest rate derivative contract outstanding as of September 30, 2011 resulted in a loss of $2.7 million and was included in other liabilities in the statement of condition. Southwest obtained the counterparty valuation to validate its interest rate derivative contract as of September 30, 2011. The effective portion of the gain or loss due to changes in the fair value of the derivative hedging instrument, $1.7 million for the nine months ended September 30, 2011, is included in other comprehensive income, net of tax, while the ineffective portion (indicated by the excess of the cumulative change in the fair value of the derivative over that which is necessary to offset the cumulative change in expected future cash flows on the hedge transaction) is included in other noninterest income or other noninterest expense. No ineffectiveness related to the interest rate derivative was recognized during the reporting period. Net cash flows as a result of the interest rate swap agreement were $0.5 million for the nine months ended September 30, 2011 and were included in interest expense on subordinated debentures. Derivative contracts involve the risk of dealing with institutional derivative counterparties and their ability to meet contractual terms. Institutional counterparties must have an investment grade credit rating and be approved by Southwest's asset/liability management committee. Southwest's credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. Credit exposure may be reduced by the amount of collateral pledged by the counterparty. There are no credit-risk-related contingent features associated with Southwest's derivative contract. The fair value of cash and securities posted as collateral by Southwest related to the derivative contract was $3.8 million at September 30, 2011.

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Subsequent Event	9 Months Ended Sep. 30, 2011
Subsequent Event [Abstract]	
SUBSEQUENT EVENT	**NOTE 10: SUBSEQUENT EVENT** Southwest and its banking subsidiary, Stillwater National, are considering a bulk sale of loans and real estate with a carrying value of approximately $300 million. The loans and assets which may be sold are primarily nonperforming assets and potential problem loans. The process includes submission of preliminary bids by potential buyers, which were due November 1, 2011, followed by submission of binding bids later this year. Southwest and its subsidiaries are not bound to complete such a sale, and may choose not to seek binding bids, or to reject all binding bids based upon the terms of the bids received. Overall, bids are expected to reflect discounts from current asset carrying values. The amount actually sold may be substantially less than $300 million.

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Significant Accounting and Reporting Policies	9 Months Ended Sep. 30, 2011
Significant Accounting and Reporting Policies [Abstract]	
SIGNIFICANT ACCOUNTING AND REPORTING POLICIES	

NOTE 1: SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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 three and nine months ended September 30, 2011, and the cash flows for the nine months ended September 30, 2011, 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, 2010.

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") and Bank of Kansas, and SNB Capital Corporation, a lending and loan workout subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications have been made to prior year amounts on the statement of financial condition and statement of cash flows to conform to current year presentation.

In accordance with Accounting Standards Codification ("ASC") 855, *Subsequent Events*, Southwest has evaluated subsequent events for potential recognition and disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

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Earnings Per Share	9 Months Ended Sep. 30, 2011
Earnings Per Share [Abstract]	
EARNINGS PER SHARE	

NOTE 7: EARNINGS PER SHARE

Earnings per common share is computed using the two-class method prescribed by ASC 260, *Earnings Per Share*. Using the two-class method, basic earnings per common share is computed based upon net income available to common shareholders divided by the weighted average number of common shares outstanding during each period, which excludes outstanding unvested restricted stock. Diluted earnings per share is computed using the weighted average number of common shares determined for the basic earnings per common share computation plus the dilutive effect of stock options using the treasury stock method. Stock options and warrants with exercise prices greater than the average market price of common shares were not included in the computation of earnings per diluted share as they would have been antidilutive. On September 30, 2011 and 2010, there were 97,526 and 240,749 antidilutive stock options to purchase common shares, respectively. An antidilutive warrant to purchase 703,753 shares of common stock was also outstanding on September 30, 2011.

The following table sets forth the computation of basic and diluted earnings per common share:

	For the three months ended September 30,		For the nine months ended September 30,	
(Dollars in thousands, except earnings per share data)	**2011**	**2010**	**2011**	**2010**
Numerator:				
Net income (loss)	$(9,525)	$3,873	$(10,034)	$12,656
Preferred dividend	(880)	(875)	(2,631)	(2,625)
Warrant amortization	(184)	(173)	(544)	(511)
Net income (loss) available to common shareholders	$(10,589)	$2,825	$(13,209)	$9,520
Loss (earnings) allocated to participating securities	—	(7)	—	(27)
Numerator for basic earnings per common share	$(10,589)	$2,818	$(13,209)	$9,493
Effect of reallocating undistributed earnings of participating securities	—	—	—	—
Numerator for diluted earnings per common share	$(10,589)	$2,818	$(13,209)	$9,493
Denominator:				
Denominator for basic earnings per common share -				
Weighted average common shares outstanding	19,416,460	19,342,909	19,413,505	17,342,393
Effect of dilutive securities:				
Stock options	—	18,739	—	18,257
Warrant	—	—	—	—
Denominator for diluted earnings per common share	19,416,460	19,361,648	19,413,505	17,360,650
Earnings per common share:				
Basic	$(0.54)	$0.15	$(0.68)	$0.55
Diluted	$(0.54)	$0.15	$(0.68)	$0.55

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Operating Segments	9 Months Ended Sep. 30, 2011

Operating Segments [Abstract]

OPERATING SEGMENTS

NOTE 8: OPERATING SEGMENTS

Southwest operates six principal segments: Oklahoma Banking, Texas Banking, Kansas Banking, Out of Market, 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 Out of Market segment provides lending services to customers outside Oklahoma, Texas, and Kansas. The Secondary Market segment consists of three operating units: one that provides student lending services to post-secondary students in Oklahoma and several other states, one that provides residential mortgage lending services to customers in Oklahoma, Texas, and Kansas, and one that provides United States Department of Agriculture ("USDA") government guaranteed commercial real estate lending services to rural healthcare providers. 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 or 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 used in the funds transfer pricing curve is a blend of rates based on the volume usage of retail and brokered certificates of deposit and Federal Home Loan Bank advances.

The Other Operations segment also includes SNB Wealth Management and corporate investments.

Southwest identifies reportable segments by type of service provided and geographic location. Operating results are adjusted for borrowings, allocated service costs, and management fees. 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 Out of Market segment are portfolio loans attributable to thirty-four 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.

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 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.

Beginning January 1, 2011, all segments of Southwest's subsidiaries reported results using organizational profitability. Prior to January 1, 2011, only the segments of Stillwater National reported results using organizational profitability, while the segments of Bank of Kansas reported results using a direct profitability approach. The change in method did not materially affect segment reporting and had no impact on the consolidated results of Southwest. The amounts for the three and nine months ending September 30, 2010 have been restated using consolidated organizational profitability.

The following table summarizes financial results by operating segment:

For the Three Months Ended September 30, 2011							
(Dollars in thousands)	**Oklahoma Banking**	**Texas Banking**	**Kansas Banking**	**Out of Market**	**Secondary Market**	**Other Operations**	**Total Company**
Net interest income	$11,127	$8,876	$3,256	$1,393	$370	$(997)	$24,025
Provision for loan losses	3,917	14,949	498	5,262	—	—	24,626
Noninterest income	1,990	443	490	53	327	286	3,589

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Noninterest expenses	7,087	4,307	3,923	943	525	908	17,693
Income (loss) before taxes	2,113	(9,937)	(675)	(4,759)	172	(1,619)	(14,705)
Taxes on income	2,106	(3,482)	(63)	(2,812)	82	(1,011)	(5,180)
Net income (loss)	$7	$(6,455)	$(612)	$(1,947)	$90	$(608)	$(9,525)

For the Three Months Ended September 30, 2010

(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$10,449	$10,089	$3,233	$2,052	$391	$238	$26,452
Provision for loan losses	(172)	10,284	1,173	703	—	—	11,988
Noninterest income	2,035	517	583	64	505	2,631	6,335
Noninterest expenses	7,080	3,305	3,141	617	598	677	15,418
Income (loss) before taxes	5,576	(2,983)	(498)	796	298	2,192	5,381
Taxes on income	2,177	(1,181)	(192)	302	125	277	1,508
Net income (loss)	$3,399	$(1,802)	$(306)	$494	$173	$1,915	$3,873

For the Nine Months Ended September 30, 2011

(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$34,119	$28,367	$10,288	$5,203	$1,038	$(4,584)	$74,431
Provision for loan losses	5,875	24,240	1,217	22,484	—	—	53,816
Noninterest income	5,804	1,402	1,423	161	841	811	10,442
Noninterest expenses	19,791	11,753	9,737	2,577	1,542	2,898	48,298
Income (loss) before taxes	14,257	(6,224)	757	(19,697)	337	(6,671)	(17,241)
Taxes on income	5,525	(2,424)	266	(7,787)	133	(2,920)	(7,207)
Net income (loss)	$8,732	$(3,800)	$491	$(11,910)	$204	$(3,751)	$(10,034)
Fixed asset expenditures	$81	$—	$167	$—	$5	$724	$977
Total loans at period end	770,306	845,485	252,302	166,810	39,902	—	2,074,805
Total assets at period end	802,503	858,391	274,688	173,692	42,065	421,153	2,572,492
Total deposits at period end	1,437,524	152,506	275,440	—	4,919	151,864	2,022,253

For the Nine Months Ended September 30, 2010

(Dollars in thousands)	Oklahoma Banking	Texas Banking	Kansas Banking	Out of Market	Secondary Market	Other Operations	Total Company
Net interest income	$32,548	$31,821	$11,275	$6,552	$1,016	$(2,851)	$80,361
Provision for loan losses	1,258	22,202	3,011	1,824	—	—	28,295
Noninterest income	6,218	1,309	1,897	254	1,611	3,186	14,475
Noninterest expenses	19,999	9,875	9,680	2,077	1,659	3,532	46,822

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Income (loss) before taxes	17,509	1,053	481	2,905	968	(3,197)	19,719
Taxes on income	6,866	412	169	1,138	402	(1,924)	7,063
Net income (loss)	$10,643	$641	$312	$1,767	$566	$(1,273)	$12,656
Fixed asset expenditures	$98	$40	$108	$—	$52	$527	$825
Total loans at period end	890,598	1,024,863	309,240	248,653	34,868	—	2,508,222
Total assets at period end	918,342	1,008,079	326,699	241,653	37,147	373,355	2,905,275
Total deposits at period end	1,567,186	161,202	269,090	—	4,650	343,520	2,345,648

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Taxes On Income	9 Months Ended Sep. 30, 2011
Taxes On Income [Abstract]	
TAXES ON INCOME	

NOTE 6: TAXES ON INCOME

Southwest entered into a Settlement Agreement (“the Agreement”) with the Oklahoma Tax Commission (“OTC”) on June 28, 2011 with respect to certain claims made by the OTC. The multi-year claims were protested by Southwest and as a result of settlement of that protest, a previously recorded reserve against those claims was released. As a result of the Agreement, Southwest paid $3.6 million of state tax expense for the years under audit and an additional $1.2 million for tax years 2008 through 2010.

The settlement of this outstanding audit closes the examination period for the years in question and removes the need for Southwest to further reserve for uncertain tax positions in accordance with ASC 740, *Income Taxes*. A reconciliation of the beginning and ending amounts of unrecognized tax benefit is as follows:

(Dollars in thousands)	
Balance at January 1, 2011	$5,333
Increases as a result of tax positions taken during current period	206
Increases as a result of tax positions taken during prior period	—
Decreases relating to settlements with taxing authorities	(5,539)
Reductions due to lapse of the applicable statute of limitations	—
Balance at September 30, 2011	$—

When analyzing the effective tax rate of a corporation, the derecognition of a reserve specific to a prior tax year(s) is treated as a discrete item in the period in which the change occurs. For the first nine months of 2011, the calculated year-to-date effective tax rate is 41.80% and results in a tax benefit.

Southwest and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions.

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Consolidated Statement of Shareholders' Equity (Unaudited) (USD $) In Thousands, except Share data	Total	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Beginning balance at Dec. 31, 2009	$ 309,778	$ 67,037	$ 14,751	$ 49,029	$ 178,016	$ 945
Beginning balance, shares at Dec. 31, 2009			14,750,713			
Dividends (paid and/or accrued):						
Preferred	(2,626)				(2,626)	
Warrant amortization		511			(511)	
Common stock issued, shares			4,626,281			
Common stock issued	54,227		4,626	49,601		
Net common stock issued under employee plans and related tax expense, shares			18,681			
Net common stock issued under employee plans and related tax expense	139		19	120		
Other comprehensive income, net of tax	2,402					2,402
Net income (loss)	12,656				12,656	
Ending balance at Sep. 30, 2010	376,576	67,548	19,396	98,750	187,535	3,347
Ending balance, shares at Sep. 30, 2010			19,395,675			
Beginning balance at Dec. 31, 2010	377,812	67,724	19,422	98,894	190,793	979
Beginning balance, shares at Dec. 31, 2010			19,421,900			
Dividends (paid and/or accrued):						
Preferred	(2,631)				(2,631)	
Warrant amortization		544			(544)	
Common stock issued, shares			16,100			
Common stock issued	230		16	214		
Net common stock issued under employee plans and related tax expense, shares			3,577			
Net common stock issued under employee plans and related tax expense	(123)		4	(127)		
Other comprehensive income, net of tax	1,770					1,770
Net income (loss)	(10,034)				(10,034)	
Ending balance at Sep. 30, 2011	$ 367,024	$ 68,268	$ 19,442	$ 98,981	$ 177,584	$ 2,749

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Ending balance, shares at Sep. 30, 2011	19,441,577

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Investment Securities	9 Months Ended Sep. 30, 2011
Investment Securities [Abstract]	
INVESTMENT SECURITIES	

NOTE 2: INVESTMENT SECURITIES

A summary of the amortized cost and fair values of investment securities at September 30, 2011 and December 31, 2010 follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At September 30, 2011:				
Held to Maturity:				
Obligations of state and political subdivisions	$15,398	$407	$—	$15,805
Total	$15,398	$407	$—	$15,805
Available for Sale:				
U.S. Government obligations	$1,100	$2	$—	$1,102
Federal agency securities	67,508	942	(63)	68,387
Obligations of state and political subdivisions	994	24	—	1,018
Residential mortgage-backed securities	176,364	6,071	(38)	182,397
Equity securities	1,128	169	—	1,297
Total	$247,094	$7,208	$(101)	$254,201

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2010:				
Held to Maturity:				
Obligations of state and political subdivisions	$14,304	$43	$(318)	$14,029
Total	$14,304	$43	$(318)	$14,029
Available for Sale:				
U.S. Government obligations	$1,099	$9	$—	$1,108
Federal agency securities	65,522	545	(693)	65,374
Obligations of state and political subdivisions	231	2	—	233
Residential mortgage-backed securities	178,695	3,535	(2,213)	180,017
Equity securities	1,102	387	—	1,489
Total	$246,649	$4,478	$(2,906)	$248,221

Residential 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”).

Securities with limited marketability, such as Federal Reserve Bank stock, Federal Home Loan Bank stock, and certain other investments, are carried at cost and included in other assets on the statement of condition. Total investments carried at cost were $10.4 million at both September 30, 2011 and December 31, 2010. There are no identified events or changes in circumstances that may have a significant adverse effect on these investments carried at cost.

A comparison of the amortized cost and approximate fair value of Southwest’s investment securities by maturity date at September 30, 2011 follows:

(Dollars in thousands)	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value

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One year or less	$13,653	$13,784	$2,377	$2,388
More than one year through five years	173,494	179,605	3,081	3,128
More than five years through ten years	45,713	46,395	6,463	6,609
More than ten years	14,234	14,417	3,477	3,680
Total	$247,094	$254,201	$15,398	$15,805

The foregoing analysis assumes that Southwest's residential mortgage-backed securities mature during the period in which they are estimated to prepay. No other prepayment or repricing assumptions have been applied to Southwest's investment securities for this analysis.

Gain or loss on sale of investments is based upon the specific identification method. There were no sales of investment securities for the three or nine months ended September 30, 2011. For the three and nine months ended September 30, 2010, there were $57.8 million in proceeds from sales of investment securities with $2.5 million in gains recorded.

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, 2011 and December 31, 2010. Securities whose market values exceed cost are excluded from this table.

			Continuous Unrealized Loss Existing for:		
(Dollars in thousands)	Number of Securities	Amortized cost of securities with unrealized losses	Less Than 12 Months	More Than 12 Months	Fair value of securities with unrealized losses
At September 30, 2011:					
Available for Sale:					
Federal agency securities	5	$ 9,142	$(63)	$—	$ 9,079
Residential mortgage-backed securities	7	7,044	(38)	—	7,006
Total	12	$ 16,186	$(101)	$—	$ 16,085

			Continuous Unrealized Loss Existing for:		
(Dollars in thousands)	Number of Securities	Amortized Cost	Less Than 12 Months	More Than 12 Months	Fair Value
At December 31, 2010:					
Held to Maturity:					
Obligations of state and political subdivisions	6	$6,490	$(318)	$—	$6,172
	6	$6,490	$(318)	$—	$6,172
Available for Sale:					
Federal agency securities	11	$26,645	$(693)	$—	$25,952
Obligations of state and political subdivisions	1	55	—	—	55
Residential mortgage-backed securities	27	62,197	(2,213)	—	59,984
Total	39	$88,897	$(2,906)	$—	$85,991

Southwest evaluates all 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 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 an anticipated recovery in fair value.

Management has the ability and intent to hold the securities classified as held to maturity in the table above until they mature, at which time Southwest expects to receive full value for the

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securities. Furthermore, as of September 30, 2011, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is not more likely than not that Southwest will have to sell any such securities before a recovery of cost. The declines in fair value were attributable to increases in market interest rates over the yields available at the time the underlying securities were purchased or increases in spreads over market interest rates. Management does not believe any of the securities are impaired due to credit quality. Accordingly, as of September 30, 2011, management believes the impairment of these investments is not deemed to be other-than-temporary.

As required by law, available for sale investment securities are pledged to secure public and trust deposits, sweep agreements, and borrowings from the FHLB. Securities with an amortized cost of $215.5 million and $216.4 million were pledged to meet such requirements at September 30, 2011 and December 31, 2010, respectively. Any amount over-pledged can be released at any time.

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Loans And Allowance For Loan Losses	9 Months Ended Sep. 30, 2011
Loans And Allowance For Loan Losses [Abstract]	
LOANS AND ALLOWANCE FOR LOAN LOSSES	

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

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 other metropolitan markets in Texas, Kansas, and Oklahoma. As a result, the collectability of Southwest's loan portfolio can be affected by changes in the economic conditions in those states and markets. Please see Note 8: Operating Segments for more detail of loans by market. At September 30, 2011 and December 31, 2010, 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.

Southwest's loan categories were as follows:

	September 30, 2011		December 31, 2010	
(Dollars in thousands)	Noncovered	Covered	Noncovered	Covered
Real estate mortgage:				
Commercial	$ 1,169,010	$23,201	$ 1,310,464	$30,997
One-to-four family residential	85,272	7,378	89,800	9,122
Real estate construction:				
Commercial	348,053	5,987	441,265	6,840
One-to-four family residential	25,527	—	27,429	439
Commercial	367,241	4,286	452,626	5,554
Installment and consumer:				
Guaranteed student loans	5,547	—	5,843	—
Other	32,946	357	39,060	676
	2,033,596	41,209	2,366,487	53,628
Less: Allowance for loan losses	(64,698)	—	(65,229)	—
Total loans, net	$ 1,968,898	$41,209	$ 2,301,258	$53,628

Concentrations of Credit. At September 30, 2011, approximately $624.1 million, or 31%, of Southwest's noncovered loans 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.

Loan Servicing. Southwest earns fees for servicing real estate mortgages and other loans owned by others. The fees are generally calculated on the outstanding principal balance of the loans serviced and are recorded as noninterest income when earned. The unpaid principal balance of real estate mortgage loans serviced for others totaled $285.9 million and $261.3 million at September 30, 2011 and September 30, 2010, respectively. Loan servicing rights are capitalized based on estimated fair value at the point of origination. The servicing rights are amortized on an individual loan by loan basis over the period of estimated net servicing income.

Acquired Loans. On June 19, 2009, Bank of Kansas entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ("FDIC") to acquire substantially all loans as well as certain other related assets of First National Bank of Anthony, Anthony, Kansas ("FNBA") in an FDIC-assisted transaction. Bank of Kansas and the FDIC entered into loss sharing agreements that provide Bank of Kansas with significant protection against credit losses from loans and related assets acquired in the transaction. Under these agreements, the FDIC will reimburse Bank of Kansas 80% of net losses up to $35.0 million on covered assets, primarily acquired loans and other real estate, and 95% of any net losses above $35.0 million. Bank of Kansas services the covered assets.

Loans covered under the loss sharing agreements with the FDIC, including the amounts of expected reimbursements from the FDIC under these agreements, are reported in loans and are referred to as "covered" loans. Covered loans were initially recorded at fair value (as determined by the present value of expected future cash flows) with no allowance for loan losses. Subsequent decreases in expected cash flows are recognized as impairments.

The expected payments from the FDIC under the loss sharing agreements are recorded as part of the covered loans in the Unaudited Consolidated Statement of Financial Condition. As of September 30, 2011, Bank of

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Kansas has identified $17.7 million in cumulative net losses that have been submitted to the FDIC under such loss sharing agreements.

Changes in the carrying and net accretable amounts for ASC 310.30 loans were as follows for the three and nine months ended September 30, 2011 and September 30, 2010.

	For the three months ended September 30,			
	2011		2010	
(Dollars in thousands)	Net accretable amount	Carrying amount of loans	Net accretable amount	Carrying amount of loans
Fair value of acquired loans at beginning of period	$2,573	$ 46,153	$ 2,956	$68,006
Payments received	—	(1,727)	—	(6,616)
Transfers to other real estate / repossessed assets	—	(2,261)	(35)	(638)
Charge-offs	(88)	(979)	(125)	(241)
Amortization	(23)	23	(47)	47
Balance at end of period	$2,462	$ 41,209	$ 2,749	$60,558

	For the nine months ended September 30,			
	2011		2010	
(Dollars in thousands)	Net accretable amount	Carrying amount of loans	Net accretable amount	Carrying amount of loans
Fair value of acquired loans at beg inning of period	$2,688	$53,628	$3,074	$85,405
Payments received	—	(7,925)	—	(21,048)
Transfers to other real estate / repossessed assets	4	(3,534)	(87)	(3,778)
Charge-offs	(85)	(1,105)	(18)	(241)
Amortization	(145)	145	(220)	220
Balance at end of period	$2,462	$41,209	$2,749	$60,558

Nonperforming / Past Due Loans. Southwest identifies past due loans based on contractual terms on a loan by loan basis and generally places loans, except for consumer loans, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer installment loans are not placed on nonaccrual but are charged-off when they are four months past due. Accrued interest is written off when a loan is placed on nonaccrual status. Subsequent interest income is recorded when cash receipts are received from the borrower and collectability of the principal amount is reasonably assured.

Under generally accepted accounting principles and instructions to reports of condition and income of federal banking regulators, a nonaccrual loan may be returned to accrual status: when none of its principal and interest is due and unpaid, repayment is expected, and there has been a sustained period (at least six months) of repayment performance; when the loan is not brought current, but there is a sustained period of performance and repayment within a reasonable period is reasonably assured; or when the loan otherwise becomes well-secured and in the process of collection. Purchased impaired loans also may be returned to accrual status without becoming fully current. Loans that have been restructured because of weakened financial positions of the borrowers also may be returned to accrual status if repayment is reasonably assured under the revised terms and there has been a sustained period of repayment performance.

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 following table presents the recorded investment in loans on nonaccrual status.

	At September 30, 2011		At December 31, 2010	
(Dollars in thousands)	Noncovered	Covered	Noncovered	Covered
Real estate mortgage:				
Commercial	$ 56,234	$1,953	$ 29,996	$4,391

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One-to-four family residential	1,433	200	1,984	932
Real estate construction:				
Commercial	49,775	4,293	53,269	4,744
One-to-four family residential	18,779	—	14,302	153
Commercial	5,895	608	6,977	581
Other consumer	152	11	38	5
Total nonaccrual loans	$ 132,268	$7,065	$ 106,566	$10,806

During the first nine months of 2011, $0.2 million of interest income was received on nonaccruing loans. If interest on all nonaccrual loans had been accrued for the nine months ended September 30, 2011, additional interest income of $4.5 million would have been recorded.

Charge-offs against noncovered nonaccrual loans were $34.9 million and $14.3 million as of September 30, 2011 and December 31, 2010, respectively.

Included in noncovered nonaccrual loans as of September 30, 2011 and December 31, 2010, respectively, are twelve and nine collateral dependent lending relationships with aggregate principal balances of approximately $90.3 million and $75.4 million and related impairment reserves of $12.3 million and $5.9 million, which were established either based on recent appraisal values obtained for the respective properties or the discounted present value of expected cash flows using the loan's initial effective interest rate. At September 30, 2011, all of these lending relationships are in the commercial real estate industry and include: two residential condominium construction projects, one with one loan outstanding and the other with two loans outstanding; two residential apartment complex relationships, one with two loans outstanding and the other with one loan outstanding; a retail building project with one loan outstanding; a residential land relationship with two loans outstanding; one lending relationship for residential care buildings with three loans outstanding; three commercial building lending relationships, two with one loan outstanding and the other with two loans outstanding; and two commercial land development relationships each with one loan outstanding.

The following table presents an age analysis of past due loans at September 30, 2011 and December 31, 2010.

(Dollars in thousands)	**30-89 days past due**	**90 days and greater past due**	**Total past due**	**Current**	**Total loans**	**Recorded loans > 90 days and accruing**
At September 30, 2011						
Noncovered:						
Real estate mortgage:						
Commercial	$ 173	$ 56,234	$56,407	$1,112,603	$1,169,010	$ —
One-to-four family residential	394	1,706	2,100	83,172	85,272	273
Real estate construction						
Commercial	192	49,775	49,967	298,086	348,053	—
One-to-four family residential	—	18,779	18,779	6,748	25,527	—
Commercial	1,325	6,080	7,405	359,836	367,241	185
Other	127	152	279	38,214	38,493	—
Total — noncovered	2,211	132,726	134,937	1,898,659	2,033,596	458
Covered:						
Real estate mortgage:						
Commercial	$ 74	$ 1,953	$2,027	$21,174	$23,201	$ —
One-to-four family residential	—	200	200	7,178	7,378	—
Real estate construction						
Commercial	—	4,903	4,903	1,084	5,987	610
One-to-four family residential	—	—	—	—	—	—
Commercial	38	608	646	3,640	4,286	—
Other	—	11	11	346	357	—

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Total — covered	112	7,675	7,787	33,422	41,209	610
Total	$2,323	$ 140,401	$142,724	$1,932,081	$2,074,805	$ 1,068
At December 31, 2010						
Noncovered:						
Real estate mortgage:						
Commercial	$3,793	$ 30,510	$34,303	$1,276,161	$1,310,464	$ 514
One-to-four family residential	1,438	1,984	3,422	86,378	89,800	—
Real estate construction						
Commercial	7,569	53,269	60,838	380,427	441,265	—
One-to-four family residential	—	14,302	14,302	13,127	27,429	—
Commercial	10,707	6,977	17,684	434,942	452,626	—
Other	1,236	41	1,277	43,626	44,903	3
Total — noncovered	24,743	107,083	131,826	2,234,661	2,366,487	517
Covered:						
Real estate mortgage:						
Commercial real estate	$227	$ 4,391	$4,618	$26,379	$30,997	$ —
One-to-four family residential	142	932	1,074	8,048	9,122	—
Real estate construction						
Commercial real estate	—	4,744	4,744	2,096	6,840	—
One-to-four family residential	108	153	261	178	439	—
Commercial	—	581	581	4,973	5,554	—
Other	14	5	19	657	676	—
Total — covered	491	10,806	11,297	42,331	53,628	—
Total	$25,234	$ 117,889	$143,123	$2,276,992	$2,420,115	$ 517

Impaired Loans. A loan is considered to be impaired when, based on current information and events, it is probable that Southwest will be unable to collect all amounts due according to the contractual terms of the loan agreement. Each loan deemed to be impaired (all loans on nonaccrual or restructured) is evaluated on an individual basis using the discounted present value of expected cash flows using the loan's initial effective interest rate, the fair value of collateral, or the market value of the loan, and a specific allowance is recorded. Smaller balance, homogeneous loans, including mortgage, student, and consumer, are collectively evaluated for impairment.

Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

Impaired loans are presented in the following tables.

	With No Specific Allowance			With A Specific Allowance		
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
At September 30, 2011						
Noncovered:						
Commercial real estate	$ 30,073	$32,056	$—	82,732	88,318	10,037
One-to-four family residential	1,301	1,548	—	132	154	2

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Real estate construction	51,411	65,486	—	25,249	28,893	4,504
Commercial	6,201	6,480	—	7,275	7,536	1,974
Other	22	26	—	130	136	130
Total noncovered	$ 89,008	$105,596	$—	$ 115,518	$125,037	$16,647
Covered:						
Commercial real estate	$ 1,953	$2,323	$—	$—	$—	$—
One-to-four family residential	200	348	—	—	—	—
Real estate construction	4,293	5,162	—	—	—	—
Commercial	608	1,325	—	—	—	—
Other	11	29	—	—	—	—
Total covered	$ 7,065	$9,187	$—	$—	$—	$—
At December 31, 2010						
Noncovered:						
Commercial real estate	$ 30,064	$30,534	$—	$ 42,732	$46,192	$ 10,813
One-to-four family residential	323	368	—	1,660	1,909	197
Real estate construction	46,978	51,644	—	35,579	37,667	5,313
Commercial	3,790	5,039	—	8,464	8,728	3,643
Other	—	—	—	38	48	28
Total noncovered	$ 81,155	$87,585	$—	$ 88,473	$94,544	$ 19,994
Covered:						
Commercial real estate	$ 4,391	$6,120	$—	$—	$—	$—
One-to-four family residential	932	1,104	—	—	—	—
Real estate construction	4,897	6,179	—	—	—	—
Commercial	581	1,092	—	—	—	—
Other	5	14	—	—	—	—
Total covered	$ 10,806	$14,509	$—	$—	$—	$—

The average recorded investment and interest income recognized on impaired loans as of September 30, 2011 and September 30, 2010 is shown in the following table.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
(Dollars in thousands)	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Noncovered:								
Commercial real estate	$ 97,136	$—	$ 27,663	$—	$ 86,544	$—	$ 24,878	$14
One-to-four family residential	1,371	3	7,086	14	1,335	5	7,007	15
Real estate construction	71,096	—	76,268	—	62,516	—	57,156	267
Commercial	10,816	83	3,772	(87)	8,745	139	3,195	(66)
Other	152	1	31	—	91	1	35	—
Total noncovered	$ 180,571	$87	$ 114,820	$(73)	$ 159,231	$145	$ 92,271	$230

Covered:

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Commercial real estate	$ 25,195	$—	$ 34,198	$14	$ 27,676	$10	$ 37,007	$14
One-to-four family residential	7,840	—	10,337	—	8,183	—	11,286	43
Real estate construction	6,149	—	10,561	—	6,449	—	13,281	—
Commercial	4,411	1	7,877	6	4,786	1	9,788	8
Other	385	—	1,027	—	489	—	1,265	—
Total covered	$ 43,980	$1	$ 64,000	$20	$ 47,583	$11	$ 72,627	$65

Troubled Debt Restructurings. The loan portfolio also includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as impaired at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment for a reasonable period of at least six months.

When Southwest modifies loans in a TDR, an evaluation of any possible impairment is performed similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or use of the current fair value of the collateral, less selling costs for collateral dependent loans. If it is determined that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, all TDRs are evaluated, including those that have payment defaults, for possible impairment.

Effective July 1, 2011, Southwest adopted Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* As such, Southwest reassessed all loan modifications occurring since January 1, 2011 for identification as troubled debt restructurings.

Loans classified as troubled debt restructurings during the three and nine months ended September 30, 2011 are shown in the following table.

(Dollars in thousands)	**Number of Modifications**	**Recorded Investment**
For the three months ended September 30, 2011		
Commercial real estate	5	$ 33,879
Commercial	8	5,904
Consumer	1	130
Total	14	$ 39,913
For the nine months ended September 30, 2011		
Commercial real estate	10	$ 51,097
Real estate construction	1	8,106
Commercial	13	6,805
Consumer	1	130
Total	25	$ 66,138

The modifications of loans identified as troubled debt restructurings primarily related to payment extensions and/or reductions in the interest rates. Financial impact of TDRs is not significant. Southwest has no significant commitments to lend additional amounts to these performing troubled debt restructured loans.

As of September 30, 2011, there have been no defaults on any loans that were modified as troubled debt restructurings during the preceding twelve months. Default occurs when a loan is 90 days or more past due or transferred to nonaccrual and is within twelve months of restructuring.

Credit Quality Indicators. To assess the credit quality of loans, Southwest categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. This analysis is performed on a quarterly basis. Southwest uses the following definitions for risk ratings:

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Special mention — Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for these loans or of the institution's credit position at some future date.

Substandard — Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligors or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Southwest will sustain some loss if the deficiencies are not corrected. These loans are considered potential nonperforming or nonperforming loans depending on the accrual status of the loans.

Doubtful — Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These loans are considered nonperforming.

Loans not meeting the criteria above that are analyzed as part of the above described process are considered to be pass rated loans. As of September 30, 2011 and December 31, 2010, and based on the most recent analysis performed as of those dates, the risk category of loans by class of loans is as follows:

(Dollars in thousands)	Commercial Real Estate	1-4 Family Residential	Real Estate Construction	Commercial	Other	Total
At September 30, 2011						
Grade:						
Pass	$ 915,628	$ 89,827	$ 200,599	$ 315,474	$38,704	$1,560,232
Special Mention	55,207	443	29,909	11,530	128	97,217
Substandard	212,129	2,380	142,043	42,216	18	398,786
Doubtful	9,247	—	7,016	2,307	—	18,570
Total	$ 1,192,211	$ 92,650	$ 379,567	$ 371,527	$38,850	$2,074,805

(Dollars in thousands)	Commercial Real Estate	1-4 Family Residential	Real Estate Construction	Commercial	Other	Total
At December 31, 2010						
Grade:						
Pass	$ 1,190,587	$ 93,961	$ 276,613	$ 399,344	$44,161	$2,004,666
Special Mention	13,854	1,840	24,023	13,436	1,340	54,493
Substandard	132,148	2,644	168,220	41,906	54	344,972
Doubtful	4,872	477	7,117	3,494	24	15,984
Total	$ 1,341,461	$ 98,922	$ 475,973	$ 458,180	$45,579	$2,420,115

Allowance for Loan Losses. 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. The amount of the loan loss provision for a period is based solely upon the amount needed to cause the allowance to reach the level deemed appropriate after the effects of net charge-offs for the period.

Management believes the level of the allowance is appropriate to absorb probable losses inherent in the loan portfolio. The allowance for loan losses is determined in accordance with regulatory guidelines and generally accepted accounting principles and is comprised of two primary components. There is no one factor, or group of factors, that produces the amount of an appropriate allowance for loan losses, as the methodology for assessing the allowance for loan losses makes use of evaluations of individual impaired loans along with other factors and analysis of loan categories. This assessment is highly qualitative and relies upon judgments and estimates by management.

A specific allowance is recorded based on the result consistent with ASC 310.10.35, *Receivables: Subsequent Measurement*, for each impaired loan. Collateral dependent loans are evaluated for impairment based upon the fair value of the collateral. The amount and level of the impairment allowance is ultimately determined by management's estimate of the amount of expected future cash flows or, if the loan is collateral dependent, on the value of collateral, which may vary from period to period depending on changes in the financial condition of the borrower or changes in the estimated value of the collateral. Charge-offs against the allowance for impaired loans are made when and to the extent loans are deemed uncollectible.

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Any portion of a collateral dependent impaired loan in excess of the fair value of the collateral that is determined to be uncollectible is charged off.

The remaining portion of the allowance is calculated based on ASC 450, *Contingencies*. Loans not evaluated for specific allowance are segmented into loan pools by type of loan. The commercial real estate and real estate construction pools are further segmented by the market in which the loan collateral is located. Our primary markets are Oklahoma, Texas, and Kansas, and loans secured by real estate in those states are included in the "in-market" pool, with the remaining defaulting to the "out-of-market" pool. Estimated allowances are based on historical loss trends with adjustments factored in based on qualitative risk factors both internal and external to Southwest. The historical loss trend is determined by loan pool and segmentation and is based on the actual loss history experienced by Southwest over the most recent three years. The qualitative risk 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.

Independent appraisals on real estate collateral securing loans are obtained at origination. New appraisals are obtained periodically and following discovery of factors that may significantly affect the value of the collateral. Appraisals typically are received within 30 days of request. Results of appraisals on nonperforming and potential problem loans are reviewed promptly upon receipt and considered in the determination of the allowance for loan losses. Southwest is not aware of any significant time lapses in the process that have resulted, or would result in, a significant delay in determination of a credit weakness, the identification of a loan as nonperforming, or the measurement of an impairment.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment evaluation method.

(Dollars in thousands)	**Commercial Real Estate**	**1-4 Family Residential**	**Real Estate Construction**	**Commercial**	**Other**	**Total**
At September 30, 2011						
Balance at beginning of period	$ 32,508	$ 1,597	$ 19,605	$ 10,605	$914	$65,229
Loans charged-off	(20,870)	(334)	(19,662)	(15,419)	(736)	(57,021)
Recoveries	285	56	626	1,614	93	2,674
Provision for loan losses	25,030	(286)	14,610	13,851	611	53,816
Balance at end of period	$ 36,953	$ 1,033	$ 15,179	$ 10,651	$882	$64,698
Period-end amount allocated to:						
Individually evaluated for impairment	$ 10,037	$ 2	$ 4,504	$ 1,974	$130	$16,647
Collectively evaluated for impairment	26,916	1,031	10,675	8,677	752	48,051
Acquired with deteriorated credit quality	—	—	—	—	—	—
Total ending allowance balance	$ 36,953	$ 1,033	$ 15,179	$ 10,651	$882	$64,698
Loans receivable ending balance:						
Individually evaluated for impairment	$ 112,805	$ 1,433	$ 76,660	$ 13,476	$152	$204,526
Collectively evaluated for impairment	1,056,205	83,839	296,920	353,765	38,341	1,829,070
Acquired with deteriorated credit quality	23,201	7,378	5,987	4,286	357	41,209
Total ending loans balance	$ 1,192,211	$ 92,650	$ 379,567	$ 371,527	$38,850	$2,074,805

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At September 30, 2010						
Allowance for loan losses ending balances:						
Balance at beginning of period	$ 26,670	$ 2,454	$ 22,241	$ 10,052	$996	$62,413
Loans charged-off	(3,162)	(2,465)	(9,285)	(3,890)	(916)	(19,718)
Recoveries	146	199	598	343	142	1,428
Provision for loan losses	3,400	1,627	19,857	2,686	725	28,295
Balance at end of period	$ 27,054	$ 1,815	$ 33,411	$ 9,191	$947	$72,418
Period-end amount allocated to:						
Individually evaluated for impairment	$ 5,047	$ 207	$ 13,832	$ 2,147	$27	$21,260
Collectively evaluated for impairment	22,007	1,608	19,579	7,044	920	51,158
Acquired with deteriorated credit quality	—	—	—	—	—	—
Total ending allowance balance	$ 27,054	$ 1,815	$ 33,411	$ 9,191	$947	$72,418
Loans receivable ending balance:						
Individually evaluated for impairment	$ 34,448	$ 6,353	$ 88,591	$ 5,789	$30	135,211
Collectively evaluated for impairment	1,236,830	103,627	469,709	457,343	44,944	2,312,453
Acquired with deteriorated credit quality	33,428	10,071	9,287	6,816	956	60,558
Total ending loans balance	$ 1,304,706	$ 120,051	$ 567,587	$ 469,948	$45,930	$2,508,222

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New Authoritative Accounting Guidance	9 Months Ended Sep. 30, 2011
New Authoritative Accounting Guidance [Abstract]	
NEW AUTHORITATIVE ACCOUNTING GUIDANCE	**NOTE 11: NEW AUTHORITATIVE ACCOUNTING GUIDANCE**

NOTE 11: NEW AUTHORITATIVE ACCOUNTING GUIDANCE

On January 21, 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), which amends ASC 820, *Fair Value Measurements and Disclosures,* to require a number of additional disclosures regarding fair value measurements. Specifically, entities are required to disclose: the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfers in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 also amends ASC 820 to clarify certain existing disclosure requirements. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all the amendments to ASC 820 made by ASU 2010-06 were effective for Southwest on January 1, 2010, and the required disclosures are reported in Note 4. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements became effective for Southwest on January 1, 2011 and did not have a significant impact on Southwest's financial statements.

On July 21, 2010, FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"), which amends ASC 830, *Receivables,* to enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, the activity in the allowance for credit losses as well as information about modified, impaired, nonaccrual, and past due loans and credit quality indicators. ASU 2010-20, as it relates to disclosures required as of the end of a reporting period was effective for Southwest's financial statements as of December 31, 2010. Disclosures that relate to activity during a reporting period are required for Southwest's financial statements issued after January 1, 2011. Southwest has incorporated the required disclosures. See Note 3.

On April 5, 2011, FASB issued Accounting Standards Update No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ("ASU 2011-02"). ASU 2011-02 clarifies whether loan modifications constitute troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 is effective for Southwest's financial statements ending September 30, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Southwest has incorporated the required disclosures. See Note 3.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common

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fair value measurement and disclosure requirements in U.S. GAAP and IFRSs (International Financial Reporting Standards). ASU 2011-04 is effective for Southwest prospectively during interim and annual periods beginning January 1, 2012. Early application by public entities is not permitted. Southwest is assessing the impact of ASU 2011-04 on our fair value disclosures.

In June 2011, FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income — Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of stockholders' equity was eliminated. ASU 2011-05 is effective for Southwest retrospectively for fiscal years, and interim periods within those years, beginning January 1, 2012, and is not expected to have a significant impact on its consolidated financial statements and disclosures.

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Fair Value Measurements	9 Months Ended Sep. 30, 2011
Fair Value Measurements [Abstract]	
FAIR VALUE MEASUREMENTS	**NOTE 4: FAIR VALUE MEASUREMENTS** Fair value is defined 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. In estimating fair value, Southwest utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC 820, *Fair Value Measurements and Disclosure*, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows: **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. This category includes U.S. Government and agency securities, residential mortgage-backed debt securities, municipal obligation securities, loans held for sale, certain private equity investments, and other real estate. **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 impaired loans, certain other real estate, goodwill, and other intangible assets. The estimated fair value amounts have been determined by Southwest using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount Southwest could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. A description of the valuation methodologies used for assets measured at fair value on a recurring basis is as follows: *Loans held for sale* — Real estate mortgage loans held for sale are carried at the lower of cost or market, which is determined on an individual loan basis. Guaranteed student loans held for sale are carried at the lower of cost or market, which is determined on an aggregate basis. *Available for sale securities* — The fair value of U.S. Government and federal agency securities, equity securities, and residential mortgage-backed securities is estimated based on quoted market prices or dealer quotes. The fair value of other investments such as obligations of state and political subdivisions is estimated based on quoted market prices. The fair value of a certain private equity investment is estimated based on Southwest's proportionate share of the net

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asset value, $1.2 million and $1.3 million as of September 30, 2011 and December 31, 2010, respectively. The investee invests in small and mid-sized U.S. financial institutions and other financial-related companies. This investment has a quarterly redemption with sixty-five days' notice.

Derivative instrument — Southwest utilizes an interest rate swap agreement to convert one of its variable-rate subordinated debentures to a fixed rate (cash flow hedge). The fair value of the interest rate swap agreement is obtained from dealer quotes.

The following table summarizes financial assets measured at fair value on a recurring basis.

		Fair Value Measurement at Reporting Date Using		
(Dollars in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
At September 30, 2011				
Loans held for sale:				
Student loans	$5,547	$ —	$ 5,547	$ —
One-to-four family residential	4,258	—	4,258	—
Government guaranteed commercial real estate	29,958	—	29,958	—
Government guaranteed commercial	139	—	139	—
Available for sale securities:				
U.S. Government obligations	1,102	1,102	—	—
Federal agency securities	68,387	—	68,387	—
Obligations of state and political subdivisions	1,018	—	1,018	—
Residential mortgage-backed securities	182,397	—	182,397	—
Equity securities	1,297	76	1,221	—
Derivative instrument	(2,715)	—	(2,715)	—
Total	$291,388	$ 1,178	$ 290,210	$ —

		Fair Value Measurement at Reporting Date Using		
(Dollars in thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
At December 31, 2010				
Loans held for sale:				
Student loans	$5,843	$ —	$ 5,843	$ —
One-to-four family residential	2,300	—	2,300	—
Government guaranteed commercial real estate	26,718	—	26,718	—
Government guaranteed commercial	333	—	333	—
Available for sale securities:				
U.S. Government obligations	1,108	1,108	—	—
Federal agency securities	65,374	—	65,374	—

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Obligations of state and political subdivisions	233	—	233	—
Residential mortgage-backed securities	180,017	—	180,017	—
Equity securities	1,489	222	1,267	—
Total	$283,415	$ 1,330	$ 282,085	$ —

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). These assets are recorded at the lower of cost or fair value. Valuation methodologies for assets measured on a nonrecurring basis are as follows:

Impaired loans — Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from collateral. Collateral values are estimated using Level 2 inputs based on third-party appraisals or Level 3 inputs based on customized discounting criteria. Certain other impaired loans are remeasured and reported through a specific valuation allowance allocation of the allowance for loan losses based upon the net present value of cash flows.

Other real estate — Other real estate fair value is based on third-party appraisals for significant properties less the estimated costs to sell the asset.

Goodwill — Fair value of goodwill is based on the fair value of each of Southwest's reporting units to which goodwill is allocated compared with their respective carrying value. There has been no impairment during 2011 or 2010; therefore, no fair value adjustment was recorded through earnings.

Core deposit premiums — The fair value of core deposit premiums are based on third-party appraisals. There has been no impairment during 2011 or 2010; therefore, no fair value adjustment was recorded through earnings.

Mortgage loan servicing rights — There is no active trading market for loan servicing rights. The fair value of loan servicing rights is estimated by calculating the present value of net servicing revenue over the anticipated life of each loan. A cash flow model is used to determine fair value. Key assumptions and estimates, including projected prepayment speeds and assumed servicing costs, earnings on escrow deposits, ancillary income, and discount rates, used by this model are based on current market sources. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults, and other relevant factors. The prepayment model is updated for changes in market conditions.

Assets measured at fair value on a nonrecurring basis are summarized below.

		Fair Value Measurements Using			
(Dollars in thousands)	**Fair Value Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
At Septeber 30, 2011					
Noncovered impaired loans at fair value:					
Commercial real estate	$ 83,652	$ —	$ 83,652		$ (8,246)
One-to-four family residential	488	—	488	—	(115)
Real estate construction	44,933	—	31,428	13,505	(11,215)
Commercial	7,624	—	7,624	—	(1,734)

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Other consumer	130	—	130	—	(130)
Noncovered other real estate	70,785	—	70,785	—	(1,846)
Mortgage loan servicing rights	1,801	—	1,801	—	(78)
Total	$ 209,413	$ —	$ 195,908	$ 13,505	$ (23,364)
At December 31, 2010					
Noncovered impaired loans at fair value:					
Commercial real estate	$ 43,349	$ —	$ 43,349	$ —	$ (5,003)
One-to-four family residential	1,660	—	1,660	—	1,819
Real estate construction	42,577	—	29,072	13,505	(4,144)
Commercial	9,727	—	9,727	—	(1,214)
Other consumer	38	—	38	—	86
Noncovered other real estate	37,722	—	37,722	—	(360)
Total	$ 135,073	$ —	$ 121,568	$ 13,505	$ (8,816)

Noncovered impaired loans measured at fair value with a carrying amount of $172.0 million were written down to a fair value of $136.8 million, resulting in a life-to-date impairment of $35.2 million, of which $21.4 million was included in the provision for loan losses for the nine months ended September 30, 2011. As of December 31, 2010, noncovered impaired loans measured at fair value with a carrying amount of $125.2 million were written down to the fair value of $97.4 million at December 31, 2010, resulting in a life-to-date impairment charge of $27.9 million, of which $8.5 million was included in the provision for loan losses for the year ended December 31, 2010.

As of September 30, 2011, noncovered other real estate assets were written down to their respective fair values, resulting in impairment charges of $1.8 million, which was included in noninterest expense for the nine months ended September 30, 2011. As of December 31, 2010, noncovered other real estate assets were written down to their respective fair values, resulting in impairment charges of $0.4 million, which was included in noninterest expense for the year ended December 31, 2010.

Mortgage loan servicing rights were written down to their fair value, resulting in impairment charges of $0.1 million, which was included in noninterest income for the nine months ended September 30, 2011.

ASC 825, *Financial Instruments*, requires an entity to provide disclosures about fair value of financial instruments, including those that are not measured and reported at fair value on a recurring or nonrecurring basis. The methodologies used in estimating the fair value of financial instruments that are measured on a recurring or nonrecurring basis are discussed above. The methodologies for the other financial instruments are discussed below:

Cash and cash equivalents — For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investment securities — The investment securities held to maturity are carried at cost. The fair value of the held to maturity securities is estimated based on quoted market prices or dealer quotes.

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Loans — Fair values are estimated for certain homogenous categories of loans adjusted for differences in loan characteristics. Southwest's loans have been aggregated by categories consisting of commercial, real estate, student, and other consumer. The fair value of loans is estimated by discounting the cash flows using risks inherent in the loan category and interest rates currently offered for loans with similar terms and credit risks.

Accrued interest receivable — The carrying amount is a reasonable estimate of fair value for accrued interest receivable.

Other assets — The estimated fair value of other assets, which primarily consists of investments carried at cost, prepaids, and deferred taxes, approximates their carrying values.

Deposits — The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the statement of financial condition date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other liabilities and accrued interest payable — The estimated fair value of other liabilities, which primarily includes trade accounts payable, and accrued interest payable approximates their carrying values.

Other borrowings — The fair value for fixed rate FHLB advances is based upon discounted cash flow analysis using interest rates currently being offered for similar instruments. The fair values of other borrowings are the amounts payable at the statement of financial condition date, as the carrying amount is a reasonable estimate of fair value due to the short-term maturity rates. Included in other borrowings are federal funds purchased, FHLB advances, securities sold under agreements to repurchase, and treasury tax and loan demand notes.

Subordinated debentures — Two subordinated debentures have floating rates that reset quarterly and the third subordinated debenture has a fixed rate. The fair value of the floating rate subordinated debentures approximates current book value. The fair value of the fixed rate subordinated debenture is based on market price.

The carrying values and estimated fair values of Southwest's financial instruments follow:

	At September 30, 2011		**At December 31, 2010**	
(Dollars in thousands)	**Carrying Values**	**Fair Values**	**Carrying Values**	**Fair Values**
Cash and cash equivalents	$116,600	$116,600	$67,496	$67,496
Securities held to maturity	15,398	15,805	14,304	14,029
Securities available for sale	254,201	254,201	248,221	248,221
Total loans, net of allowance	2,010,107	1,940,928	2,354,886	2,279,605
Accrued interest receivable	8,035	8,035	8,590	8,590
Other assets	45,024	45,024	49,181	49,181
Deposits	2,022,253	1,983,253	2,252,728	2,119,840
Accrued interest payable	2,507	2,507	1,577	1,577
Other liabilities	14,877	14,877	8,981	8,981
Derivative instrument	(2,715)	(2,715)	—	—
Other borrowings	86,583	144,299	94,602	100,550
Subordinated debentures	81,963	72,303	81,963	84,654

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Consolidated Statements of Cash Flows (Unaudited) (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Operating activities:		
Net income (loss)	$ (10,034)	$ 12,656
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	53,816	28,295
Provision for other real estate and adjustments to other real estate	2,301	590
Deferred tax benefit	(39)	(4,959)
Asset depreciation	1,971	2,135
Securities premium amortization, net of discount accretion	1,640	1,361
Amortization of intangibles	887	1,101
Stock based compensation expense	256	283
Net gain on sales/calls of investment securities		(2,646)
Net gain on sales of available for sale loans	(1,021)	(2,054)
Net loss on sales of premises/equipment	1	138
Net gain on sales of other real estate	(123)	(189)
Proceeds from sales of held for sale loans	48,295	122,783
Held for sale loans originated for resale	(48,290)	(93,463)
Net changes in assets and liabilities:		
Accrued interest receivable	555	1,143
Other assets	2,665	8,427
Income taxes receivable / payable	(15,547)	2,131
Excess tax expense (benefit) from share-based payment arrangements	160	(14)
Accrued interest payable	930	(734)
Other liabilities	(792)	(1,978)
Net cash provided by operating activities	37,631	75,006
Investing activities:		
Proceeds from sales of available for sale securities		57,783
Proceeds from principal repayments, calls and maturities:		
Held to maturity securities	2,345	2,700
Available for sale securities	42,419	53,286
Proceeds from sales of other investments		9,761
Purchases of other investments	(42)	(1,100)
Purchases of held to maturity securities		(5,134)
Purchases of available for sale securities	(47,944)	(99,880)
Principal repayments, net of loans originated	239,894	86,686
Purchases of premises and equipment	(977)	(825)
Proceeds from sales of premises and equipment	108	50
Proceeds from sales of other real estate	16,021	8,669
Net cash provided from investing activities	251,824	111,996
Financing activities:		

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Net decrease in deposits	(230,475)	(247,082)
Net decrease in other borrowings	(8,019)	(20,516)
Net proceeds from issuance of common stock	53	54,169
Excess tax (expense) benefit from share-based payment arrangements	(160)	14
Preferred stock dividends paid	(1,750)	(2,625)
Common stock dividends paid		(351)
Net cash used in financing activities	(240,351)	(216,391)
Net increase (decrease) in cash and cash equivalents	49,104	(29,389)
Cash and cash equivalents:		
Beginning of period	67,496	118,847
End of period	$ 116,600	$ 89,458

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Consolidated Statements of Comprehensive Income (Unaudited) (USD $) In Thousands	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Consolidated Statements of Comprehensive Income [Abstract]				
Net income (loss)	$ (9,525)	$ 3,873	$ (10,034)	$ 12,656
Other comprehensive income:				
Unrealized holding gain (loss) on available for sale securities	2,377	(309)	5,535	6,569
Reclassification adjustment for losses arising during the period		(2,605)		(2,646)
Change in fair value of derivative used for cash flow hedge	(1,535)		(2,715)	
Other comprehensive income (loss), before tax	842	(2,914)	2,820	3,923
Tax benefit (expense) related to items of other comprehensive income (loss)	(321)	1,128	(1,050)	(1,521)
Other comprehensive income (loss), net of tax	521	(1,786)	1,770	2,402
Comprehensive income (loss)	$ (9,004)	$ 2,087	$ (8,264)	$ 15,058

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Deferral of Interest & Dividends	9 Months Ended Sep. 30, 2011
Deferral Of Interest & Dividends [Abstract]	
DEFERRAL OF INTEREST & DIVIDENDS	**NOTE 9: DEFERRAL OF INTEREST & DIVIDENDS** In July 2011, Southwest determined to suspend payments of interest on its three issues of outstanding debentures effective August 1, 2011 and dividends on the related trust preferred securities. The terms of the debentures allow Southwest to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. These terms also allow Southwest to resume payments at the end of any deferral period, or to extend the deferral up to the maximum 20 quarters in total. No deferral can extend past the maturity date of the debenture. Interest will continue to accrue on the debentures, and dividends will continue to accrue on the related trust preferred securities. Southwest's trust preferred securities were issued by the following subsidiary trusts: Southwest Capital Trust II, which trades on the NASDAQ Global Select Market under the symbol "OKSBP"; OKSB Statutory Trust I; and SBI Capital Trust II. At September 30, 2011, $82.0 million of debentures were outstanding. In addition, Southwest determined to defer payment of dividends on its Series B Preferred Securities issued under the U.S. Treasury Department's Capital Purchase Program, effective for the dividend payments, beginning August 15, 2011. Dividends on the Preferred Securities may not be paid while interest on Southwest's debentures has been deferred, but will continue to accrue. At September 30, 2011, $70.0 million of Preferred Securities were outstanding. The deferrals on interest and dividends are intended to preserve liquidity at the holding company level, which may be used to inject funds in its bank subsidiaries or for other corporate purposes. Because the interest on the debentures, the dividends on the related trust preferred securities, and the dividends on the Preferred Securities will continue to accrue, these deferrals are not expected to have any significant effect on the net income or net income available to common shareholders of Southwest. During the year ended December 31, 2010, total interest expense on the debentures, which is deductible for income tax purposes, totaled $5.1 million, and dividends on the Preferred Securities, which are not deductible for income tax purposes, totaled $3.5 million.

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Consolidated Statements of Financial Condition (Unaudited) (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Assets:		
Cash and due from banks	$ 27,501	$ 26,478
Interest-bearing deposits	89,099	41,018
Cash and cash equivalents	116,600	67,496
Securities held to maturity (fair values of $15,805 and $14,029, respectively)	15,398	14,304
Securities available for sale (amortized cost $247,094 and $246,649, respectively)	254,201	248,221
Loans held for sale	39,902	35,194
Noncovered loans receivable	1,993,694	2,331,293
Less: Allowance for loan losses	(64,698)	(65,229)
Net noncovered loans	1,928,996	2,266,064
Covered loans receivable (includes loss share of $10,976 and $14,370, respectively)	41,209	53,628
Net loans receivable	1,970,205	2,319,692
Accrued interest receivable	8,035	8,590
Income tax receivable	12,509	0
Premises and equipment, net	22,706	23,772
Noncovered other real estate	70,785	37,722
Covered other real estate	5,350	4,187
Goodwill	6,811	6,811
Other intangible assets, net	4,966	5,371
Other assets	45,024	49,181
Total assets	2,572,492	2,820,541
Deposits:		
Noninterest-bearing demand	388,365	377,182
Interest-bearing demand	98,270	92,584
Money market accounts	461,546	495,253
Savings accounts	31,319	26,665
Time deposits of $100,000 or more	551,914	694,565
Other time deposits	490,839	566,479
Total deposits	2,022,253	2,252,728
Accrued interest payable	2,507	1,577
Income tax payable	0	2,878
Other liabilities	12,162	8,981
Other borrowings	86,583	94,602
Subordinated debentures	81,963	81,963
Total liabilities	2,205,468	2,442,729
Shareholders' equity:		
Serial preferred stock - 1,000 par value; 2,000,000 shares authorized; 70,000 shares issued and outstanding	68,268	67,724
Common stock - $1 par value; 40,000,000 shares authorized; 19,441,577 and 19,421,900 shares issued and outstanding, respectively	19,442	19,422

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Paid in capital	98,981	98,894
Retained earnings	177,584	190,793
Accumulated other comprehensive income	2,749	979
Total shareholders' equity	367,024	377,812
Total liabilities & shareholders' equity	$ 2,572,492	$ 2,820,541

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