

SOUTHERN MISSOURI BANCORP INC
Form 10-K
September 29, 2008

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

FORM 10-K

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

For the fiscal year ended June 30, 2008 OR

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

Commission File Number: 0-23406

SOUTHERN MISSOURI BANCORP, INC.

(Exact name of small business issuer as specified in its charter)

Missouri

43-1665523

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification
No.)

531 Vine Street, Poplar Bluff, Missouri

63901

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (573) 778-1800

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES NO

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

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Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was \$23.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of September 12, 2008, there were issued and outstanding 2,210,833 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K – Annual Report to Stockholders for the fiscal year ended June 30, 2008.

Part III of Form 10-K – Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

Southern Missouri Bancorp, Inc. ("Company"), which changed its state of incorporation to Missouri on April 1, 1999, was originally incorporated in Delaware on December 30, 1993 for the purpose of becoming the holding company for Southern Missouri Savings Bank upon completion of Southern Missouri Savings Bank's conversion from a state chartered mutual savings and loan association to a state chartered stock savings bank. As part of the conversion in April 1994, the Company sold 1,803,201 shares of its common stock to the public. The Company's Common Stock is quoted on the National Association of Securities Dealers Automated Quotations ("NASDAQ") National Market System under the symbol "SMBC".

Southern Missouri Savings Bank was originally chartered as a mutual Missouri savings and loan association in 1887. On June 20, 1995, it converted to a federally chartered stock savings bank and took the name Southern Missouri Savings Bank, FSB. On February 17, 1998, Southern Missouri Savings Bank converted from a federally chartered stock savings bank to a Missouri chartered stock savings bank and changed its name to Southern Missouri Bank & Trust Co. On June 4, 2004, Southern Missouri Bank & Trust Co. ("Bank") converted from a Missouri chartered stock savings bank to a Missouri state chartered trust company with banking powers ("Charter Conversion").

The primary regulator of the Bank is the Missouri Division of Finance. The Bank's deposits continue to be insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"). With the Bank's conversion to a trust company with banking powers, the Company became a bank holding company regulated by the Federal Reserve Board ("FRB").

The principal business of the Bank consists primarily of attracting retail deposits from the general public and using such deposits along with wholesale funding from the Federal Home Loan Bank of Des Moines ("FHLB"), and to a lesser extent, brokered deposits, to invest in one- to four-family residential mortgage loans, mortgage loans secured by commercial real estate, commercial non-mortgage business loans and consumer loans. These funds are also used to purchase mortgage-backed and related securities ("MBS"), U.S. Government Agency obligations and other permissible investments.

At June 30, 2008, the Company had total assets of \$417.8 million, total deposits of \$292.3 million and stockholders' equity of \$30.5 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank. The Company's revenues are derived principally from interest earned on loans, investment securities, MBS, CMO's and, to a lesser extent, banking service charges, loan late charges, increases in the cash surrender value of bank owned life insurance and other fee income.

Forward Looking Statements

This document, including information incorporated by reference, contains forward-looking statements about the Company and its subsidiaries which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and the intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
 - inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
 - the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
 - the impact of technological changes;
 - acquisitions;
 - changes in consumer spending and saving habits; and
 - our success at managing the risks involved in the foregoing.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Market Area

The Bank provides its customers with a full array of community banking services and conducts its business from its headquarters in Poplar Bluff and seven additional full service offices located in Poplar Bluff, Van Buren, Dexter,

Kennett, Doniphan, Sikeston, and Qulin, Missouri. The Bank's primary market area includes all or portions of Butler, Carter, Dunklin, Ripley, Stoddard, Scott, Mississippi, New Madrid, Wayne, and Pemiscot Counties in Missouri, and Mississippi and Clay Counties in Arkansas. The Bank's market area has a population of approximately 200,000. The largest employers in the Bank's primary market area are the Poplar Bluff Regional Medial Center, employing approximately 1,500 persons, and Briggs & Stratton, a small engine manufacturing facility employing approximately 1,300 persons. Other major employers include Noranda Aluminum, Visiting Nurse Association, Good Humor-Breyers, Gates Rubber, John Pershing VA Hospital, Nordyne, the Poplar Bluff School District, the Missouri Delta Medical Center, Wal-Mart Stores, Mid-Continent Nail, Tyson Foods, and ArvinMeritor. The Bank's market area is primarily rural in nature and relies heavily on the manufacturing industries and agriculture, with products including livestock, rice, timber, soybeans, wheat, melons, corn and cotton.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. The Bank is one of 27 financial institution groups located in its primary market area. Competitors for deposits include commercial banks, credit unions, money market funds, and other investment alternatives, such as mutual funds, full service and discount broker-dealers, equity markets, brokerage accounts and government securities. The Bank's competition for loans comes principally from other financial institutions, mortgage banking companies, mortgage brokers and life insurance companies. The Bank expects competition to continue to increase in the future as a result of legislative, regulatory and technological changes within the financial services industry. Technological advances, for example, have lowered barriers to market entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. The Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, also has changed the competitive environment in which the Bank conducts business.

Internet Website

Bancorp maintains a website at www.smbtonline.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Bancorp currently makes available on or through its website Bancorp's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge on the Securities and Exchange Commission's website at www.sec.gov.

Selected Consolidated Financial Information

This information is incorporated by reference from pages 9 and 10 of the 2008 Annual Report to Stockholders attached hereto as Exhibit 13 ("Annual Report").

Yields Earned and Rates Paid

This information contained under the section captioned "Yields Earned and Rates Paid" is incorporated herein by reference from page 18 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 18 of the Annual Report.

Average Balance, Interest and Average Yields and Rates

This information contained under the section captioned "Average Balance, Interest and Average Yields and Rates" is incorporated herein by reference from pages 16 and 17 of the Annual Report.

Lending Activities

General. The Bank's lending activities consist of origination of loans secured by mortgages on one- to four-family residences and commercial real estate, construction loans on residential and commercial properties, commercial business loans and consumer loans. The Bank has also occasionally purchased loan participation interests originated by other lenders and secured by properties generally located in the State of Missouri.

Supervision of the loan portfolio is the responsibility of William D. Hribovsek, Chief Lending Officer. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the Loan Officers Committee, comprised of President Greg Steffens and Chief Lending Officer William D. Hribovsek, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in aggregate, in excess of \$750,000 require the approval of a majority of the Discount Committee, which consists of all Bank directors, prior to the closing of the loan. All loans are subject to ratification by the full Board of Directors.

The aggregate amount of loans that the Bank is permitted to make under applicable federal regulations to any one borrower, including related entities, or the aggregate amount that the Bank could have invested in any one real estate project, is based on the Bank's capital levels. See "Regulation - Loans to One Borrower." At June 30, 2008, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately \$9.6 million. At June 30, 2008, the Bank's five largest extensions of credit to one entity ranged from \$6.3 million to \$8.6 million, net of participation interests sold. The majority of these credits were commercial, commercial real estate, or multi-family real estate loans and all of them were performing according to their terms.

Loan Portfolio Analysis. The following table sets forth the composition of the Bank's loan portfolio by type of loan and type of security as of the dates indicated.

| | 2008 | | At June 30, 2007 | | 2006 | |
|------------------------------|------------|---------|---------------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | |
| Type of Loan: | | | | | | |
| Mortgage Loans: | | | | | | |
| Residential real estate | \$ 149,340 | 43.53% | \$ 135,288 | 43.35% | \$ 127,205 | 45.28% |
| Commercial real estate | 85,860 | 25.03 | 77,723 | 24.91 | 65,374 | 23.27 |
| Construction | 13,945 | 4.06 | 7,981 | 2.56 | 10,868 | 3.87 |
| Total mortgage loans | \$ 249,145 | 72.62 | \$ 220,992 | 70.82 | \$ 203,447 | 72.42 |
| Other Loans: | | | | | | |
| Automobile loans | 8,872 | 2.59 | 9,462 | 3.03 | 10,428 | 3.71 |
| Commercial business | 81,575 | 23.78 | 76,053 | 24.37 | 65,109 | 23.18 |
| Home equity | 8,213 | 2.39 | 6,548 | 2.10 | 7,007 | 2.49 |
| Other | 4,439 | 1.29 | 3,407 | 1.09 | 2,671 | 0.95 |
| Total other loans | 103,099 | 30.05 | 95,470 | 30.59 | 85,215 | 30.33 |
| Total loans | \$ 352,244 | 102.67 | \$ 316,462 | 101.41 | \$ 288,662 | 102.75 |
| Less: | | | | | | |
| Undisbursed loans in process | \$ 5,668 | 1.65 | \$ 1,913 | 0.61 | \$ 5,738 | 2.04 |
| Deferred fees and discounts | (61) | (0.02) | (52) | (0.02) | (65) | (0.02) |
| Allowance for loan losses | 3,567 | 1.04 | 2,538 | 0.81 | 2,058 | 0.73 |
| Net loans receivable | \$ 343,070 | 100.00% | \$ 312,063 | 100.00% | \$ 280,931 | 100.00% |
| Type of Security: | | | | | | |
| Residential real estate | | | | | | |
| One-to four-family | \$ 154,403 | 45.01% | \$ 137,289 | 43.99% | \$ 134,111 | 47.74% |
| Multi-family | 22,971 | 6.70 | 6,205 | 1.99 | 1,571 | 0.56 |
| Commercial real estate | 58,365 | 17.01 | 63,139 | 20.23 | 54,544 | 19.41 |
| Land | 24,891 | 7.26 | 16,187 | 5.19 | 14,177 | 5.04 |
| Commercial | 68,379 | 19.93 | 74,226 | 23.79 | 64,153 | 22.84 |
| Consumer and other | 23,235 | 6.77 | 19,416 | 6.22 | 20,106 | 7.16 |
| Total loans | \$ 352,244 | 102.67 | \$ 316,462 | 101.41 | \$ 288,662 | 102.75 |
| Less: | | | | | | |
| Undisbursed loans in process | \$ 5,668 | 1.65 | \$ 1,913 | 2.04 | \$ 5,738 | 2.04 |
| Deferred fees and discounts | (61) | (0.02) | (52) | (0.02) | (65) | (0.02) |
| Allowance for loan losses | 3,567 | 1.04 | 2,538 | 0.81 | 2,058 | 0.73 |
| Net loans receivable | \$ 343,070 | 100.00% | \$ 312,063 | 100.00% | \$ 280,931 | 100.00% |

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The following table shows the fixed and adjustable rate composition of the Bank's loan portfolio at the dates indicated.

| | 2008 | | At June 30, 2007 | | 2006 | |
|------------------------------|------------|---------|---------------------|---------|------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | |
| Type of Loan: | | | | | | |
| Fixed-Rate Loans: | | | | | | |
| Residential real estate | \$ 108,052 | 31.50% | \$ 97,922 | 31.38% | \$ 88,261 | 31.42% |
| Commercial real estate | 63,983 | 18.65 | 46,410 | 14.87 | 25,667 | 9.13 |
| Construction | 13,005 | 3.79 | 5,329 | 1.71 | 6,536 | 2.33 |
| Consumer | 13,280 | 3.87 | 12,821 | 4.11 | 13,059 | 4.65 |
| Commercial business | 59,796 | 17.43 | 40,167 | 12.87 | 25,315 | 9.01 |
| Total fixed-rate loans | 258,116 | 75.24 | 202,649 | 64.94 | 158,838 | 56.54 |
| Adjustable-Rate Loans: | | | | | | |
| Residential real estate | 41,288 | 12.03 | 37,366 | 11.98 | 38,944 | 13.86 |
| Commercial real estate | 21,877 | 6.38 | 31,313 | 10.03 | 39,706 | 14.13 |
| Construction | 940 | 0.27 | 2,652 | 0.85 | 4,333 | 1.54 |
| Consumer | 8,244 | 2.40 | 6,595 | 2.11 | 7,047 | 2.51 |
| Commercial business | 21,779 | 6.35 | 35,887 | 11.50 | 39,794 | 14.17 |
| Total adjustable-rate loans | 94,128 | 27.43 | 113,813 | 36.47 | 129,824 | 46.21 |
| Total Loans | 352,244 | 102.67 | 316,462 | 101.41 | 288,662 | 102.75 |
| Less: | | | | | | |
| Undisbursed loans in process | 5,668 | 1.65 | 1,913 | 0.61 | 5,738 | 2.04 |
| Net deferred loan fees | (61) | (0.02) | (52) | (0.02) | (65) | (0.02) |
| Allowance for loan loss | 3,567 | 1.04 | 2,538 | 0.81 | 2,058 | 0.73 |
| Net loans receivable | \$ 343,070 | 100.00% | \$ 312,063 | 100.00% | \$ 280,931 | 100.00% |

One- to Four-Family Residential Mortgage Lending. The Bank actively originates loans for the acquisition or refinance of one- to four-family residences. These loans are originated as a result of customer and real estate agent referrals, existing and walk-in customers and from responses to the Bank's marketing campaigns. At June 30, 2008, net mortgage loans secured by one- to four-family residences totaled \$136.7 million, or 39.9% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2008, the Bank originated \$9.9 million of ARM loans and \$22.0 million of fixed-rate loans that were secured by one- to four-family residences. Substantially all of the one- to four-family residential mortgage originations in the Bank's portfolio are located within the Bank's primary market area.

The Bank generally originates one- to four-family residential mortgage loans in amounts up to 90% of the lower of the purchase price or appraised value of residential property. For loans originated in excess of 80%, the Bank charges an additional 37.5 basis points, but does not require private mortgage insurance. The majority of new residential mortgage loans originated by the Bank conform to secondary market standards. The interest rates charged on these

loans are competitively priced based on local market conditions, the availability of funding, and anticipated profit margins. Fixed and ARM loans originated by the Bank are amortized over periods as long as 30 years, but typically are repaid over shorter periods.

Fixed-rate loans secured by one- to four-family residences have contractual maturities up to 30 years, and are generally fully amortizing with payments due monthly. These loans normally remain outstanding for a substantially shorter period of time because of refinancing and other prepayments. A significant change in the interest rate environment can alter the average life of a residential loan portfolio. The one- to four-family fixed-rate loans do not contain prepayment penalties. Most are written using secondary market guidelines. At June 30, 2008, one- to four-family loans with a fixed rate totaled \$98.6 million, and had a weighted-average maturity of 207 months.

The Bank currently originates ARM loans, which adjust annually, after an initial period of one, three or five years. Typically, originated ARM loans secured by owner occupied properties reprice at a margin of 2.75% to 3.00% over the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year ("CMT"). Generally, ARM loans secured by non-owner occupied residential properties reprice at a margin of 3.75% over the CMT index. Current residential ARM loan originations are subject to annual and lifetime interest rate caps and floors. As a consequence of using interest rate caps, discounted initial rates and a "CMT" loan index, the interest earned on the Bank's ARMs will react differently to changing interest rates than the Bank's cost of funds. At June 30, 2008, loans tied to the CMT index totaled \$35.1 million.

Until 1999, most of the owner occupied residential loans originated by the Bank repriced annually at a margin of 2.50% or 2.75% over the 11th district cost of funds index or the Bank's internal cost of funds, while non-owner occupied residential loans typically repriced at a margin of 3.00% to 3.75% over these same indices. The maximum annual interest rate adjustment on these ARMs was typically limited to a 1.00% to 2.00% adjustment, while the maximum lifetime adjustment was generally limited to 5.00% to 6.00%. Generally, each of these indices are considered a "lagging" index because they adjust more slowly to changes in market interest rates than most other indices. At June 30, 2008, loans tied to these indices totaled \$3.3 million.

In underwriting one- to four-family residential real estate loans, the Bank evaluates the borrower's ability to meet debt service requirements at current as well as fully indexed rates for ARM loans, as well as the value of the property securing the loan. During fiscal 2008, most properties securing real estate loans made by the Bank had appraisals performed on them by independent fee appraisers approved and qualified by the Board of Directors. The Bank generally requires borrowers to obtain title insurance and fire, property and flood insurance (if indicated) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

Commercial Real Estate Lending. The Bank actively originates loans secured by commercial real estate including land (improved and unimproved), strip shopping centers, retail establishments and other businesses generally located in the Bank's primary market area. At June 30, 2008, the Bank had \$85.9 million in commercial real estate loans, which represented 25.0% of net loans receivable.

Commercial real estate loans originated by the Bank generally are based on amortization schedules of up to 20 years with monthly principal and interest payments. Generally, the interest rate received on these loans is fixed for a maturity for up to five years, with a balloon payment due at maturity. Alternatively, for some loans, the interest rate adjusts at least annually after an initial period up to five years, based upon the Wall Street prime rate or the one year CMT. The Bank's fixed-rate commercial real estate portfolio has a weighted average maturity of 34.7 months. Variable rate commercial real estate originations typically adjust daily, monthly, quarterly or annually based on the Wall Street prime rate. Generally, improved commercial real estate loan amounts do not exceed 80% of the lower of the appraised value or the purchase price of the secured property. Before credit is extended, the Bank analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property and the value of the property itself. Generally, personal guarantees are obtained from the borrower in addition to obtaining the secured property as collateral for such loans. The Bank also generally requires appraisals on properties securing commercial real estate to be performed by a Board-approved independent certified fee appraiser.

Generally, loans secured by commercial real estate involve a greater degree of credit risk than one- to four-family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on loans secured by commercial real estate are often dependent on the successful operation or management of the secured property, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. See "Asset Quality."

Construction Lending. The Bank originates real estate loans secured by property or land that is under construction or development. At June 30, 2008, the Bank had \$13.9 million, or 4.1% of net loans receivable in construction loans outstanding.

Construction loans originated by the Bank are generally secured by permanent mortgage loans for the construction of owner occupied residential real estate or to finance speculative construction secured by residential real estate, land development or owner-operated commercial real estate. At June 30, 2008, the Bank had \$13.9 million in construction loans, \$5.6 million of which were secured by one- to four-family residential real estate (of which \$2.1 million was for speculative construction), \$1.6 million of which were secured by commercial real estate and \$5.7 million of which were secured by multi-family real estate. An additional \$1.0 million is secured by an assignment of a lease agreement between the borrower/builder and a local government entity. The Bank's increase in construction loans is primarily due to one multi-family development with an outstanding balance of \$1.6 million and undisbursed commitments of \$3.4 million. During construction, these loans typically require monthly interest-only payments and have maturities ranging from 6 to 12 months. Once construction is completed, permanent construction loans are converted to monthly payments using amortization schedules of up to 30 years on residential and up to 20 years on commercial real estate.

Speculative construction and land development lending generally affords the Bank an opportunity to receive higher interest rates and fees with shorter terms to maturity than those obtainable from residential lending. Nevertheless, construction and land development lending is generally considered to involve a higher level of credit risk than one- to four-family residential lending due to (i) the concentration of principal among relatively few borrowers and development projects, (ii) the increased difficulty at the time the loan is made of accurately estimating building or development costs and the selling price of the finished product, (iii) the increased difficulty and costs of monitoring and disbursing funds for the loan, (iv) the higher degree of sensitivity to increases in market rates of interest and changes in local economic conditions, and (v) the increased difficulty of working out problem loans. Due in part to these risk factors, the Bank may be required from time to time to modify or extend the terms of some of these types of loans. In an effort to reduce these risks, the application process includes a submission to the Bank of accurate plans, specifications and costs of the project to be constructed. These items are also used as a basis to determine the appraised value of the subject property. Loan amounts are limited to 85% of the lesser of current appraised value and/or the cost of construction.

Consumer Lending. The Bank offers a variety of secured consumer loans, including home equity, direct and indirect automobile loans, second mortgages, mobile homes and loans secured by deposits. The Bank originates substantially all of its consumer loans in its primary market area. Usually, consumer loans are originated with fixed rates for terms of up to five years, with the exception of home equity lines of credit, which are variable, tied to the prime rate of interest and are for a period of ten years. At June 30, 2008, the Bank's consumer loan portfolio totaled \$21.5 million, or 6.3% of net loans receivable.

Home equity loans represented 38.2% of the Bank's consumer loan portfolio at June 30, 2008, and totaled \$8.2 million, or 2.4% of net loans receivable.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are issued up to 100% of the appraised or assessed value of the property securing the line of credit, less the outstanding balance on the first mortgage. Interest rates on the HELOCs are adjustable and are tied to the current prime interest rate. This rate is obtained from the Wall Street Journal and adjusts on a daily basis. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity. HELOCs, which are secured by residential properties, are secured by stronger collateral than automobile loans and because of the adjustable rate structure, contain less interest rate risk to the Bank. Lending up to 100% of the value of the property presents greater credit risk to the Bank. Consequently, the Bank limits this product to customers with a favorable credit history. At June 30, 2008, lines of credit up to 80% of the property value represented 77.6% of outstanding balances, and 79.0% of balances and commitments; lines of credit for more than 80%, but not exceeding 90%, of the property value represented 20.2% of outstanding balances and 19.5% of balances and commitments; and lines of credit in excess of 90% of the property value represented 2.2% of outstanding balances and 1.5% of balances and commitments.

Automobile loans represented 41.2% of the Bank's consumer loan portfolio at June 30, 2008, and totaled \$8.9 million, or 2.6% of net loans receivable. Of that total, \$716,000 represented loans originated by auto dealers. These loans generally pay a negotiated fee back to the dealer. Typically, automobile loans are

made for terms of up to 60 months for new and used vehicles. Loans secured by automobiles have fixed rates and are generally made in amounts up to 100% of the purchase price of the vehicle.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed for consumer loans include employment stability, an application, a determination of the applicant's payment history on other debts, and an assessment of ability to meet existing and proposed obligations. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, because they are generally unsecured or are secured by rapidly depreciable or mobile assets, such as automobiles or mobile homes. In the event of repossession or default, there may be no secondary source of repayment or the underlying value of the collateral could be insufficient to repay the loan. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. The Bank's delinquency levels for these types of loans are reflective of these risks. See "Asset Classification."

Commercial Business Lending. At June 30, 2008, the Bank also had \$81.6 million in commercial business loans outstanding, or 23.8% of net loans receivable. The Bank's commercial business lending activities encompass loans with a variety of purposes and security, including loans to finance accounts receivable, inventory, equipment and operating lines of credit.

The Bank currently offers both fixed and adjustable rate commercial business loans. At year end, the Bank had \$59.8 million in fixed rate and \$21.8 million of adjustable rate commercial business loans. The adjustable rate business loans typically reprice daily, monthly, quarterly, or annually, in accordance with the Wall Street prime rate of interest. The Bank expects to continue to maintain or increase the current percentage of commercial business loans in its total loan portfolio.

Commercial business loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. Generally, commercial loans secured by fixed assets are amortized over periods up to five years, while commercial operating lines of credit are generally for a one year period. The Bank's commercial business loans are evaluated based on the loan application, a determination of the applicant's payment history on other debts, business stability and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Contractual Obligations and Commitments, Including Off-Balance Sheet Arrangements. The following table discloses our fixed and determinable contractual obligations and commercial commitments by payment date as of June 30, 2008. Commitments to extend credit totaled \$51.5 million at June 30, 2008.

| | Less Than 1 Year | 1-3 Years | 4-5 Years (In Thousands) | More Than 5 Years | Total |
|------------------------------------|---------------------|-----------|-----------------------------|----------------------|------------|
| Federal Home Loan Bank advances | \$ 5,550 | \$ 34,000 | \$ 6,000 | \$ 18,500 | \$ 64,050 |
| Certificates of deposit | 130,025 | 13,457 | 6,876 | --- | 150,358 |
| Total | \$ 135,575 | \$ 47,457 | \$ 12,867 | \$ 18,500 | \$ 214,408 |

| | Less Than 1 Year | 1-3 Years | 4-5 Years (In Thousands) | More Than 5 Years | Total |
|-------------------------------|---------------------|-----------|-----------------------------|----------------------|-----------|
| Construction loans in process | \$ 5,668 | \$ --- | \$ --- | \$ --- | \$ 5,668 |
| Other commitments | 39,493 | 607 | 876 | 4,864 | 45,840 |
| | \$ 45,161 | \$ 607 | \$ 876 | \$ 4,864 | \$ 51,508 |

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2008 regarding the dollar amount of loans maturing or repricing in the Bank's portfolio based on their contractual terms to maturity or repricing, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Mortgage loans that have adjustable rates are shown as maturing at their next repricing date. Listed loan balances are shown before deductions for undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

| | Within One Year | After One Year Through 5 Years | After 5 Years Through 10 Years (In thousands) | After 10 Years | Total |
|-------------------------|--------------------|---|---|-------------------|------------|
| Residential real estate | \$ 27,781 | \$ 26,194 | \$ 15,373 | \$ 79,992 | \$ 149,340 |
| Commercial real estate | 40,021 | 39,101 | 3,585 | 3,152 | 85,859 |
| Construction | 13,622 | 323 | --- | --- | 13,945 |
| Consumer | 6,223 | 10,744 | 4,558 | --- | 21,525 |
| Commercial business | 49,874 | 30,721 | 448 | 532 | 81,575 |
| Total loans | \$ 137,521 | \$ 107,083 | \$ 23,964 | \$ 83,676 | \$ 352,244 |

As of June 30, 2008, loans with a maturity date after June 30, 2009 with fixed interest rates totaled \$182.5 million, and loans with a maturity date after June 30, 2009 with adjustable rates totaled \$84.2 million.

Loan Originations, Sales and Purchases

Generally, all loans are originated by the Bank's staff, who are salaried loan officers. Loan applications are taken and processed at each of the Bank's full-service locations. The Bank began offering secondary market loans, which are also originated by the Bank's staff, to customers during fiscal year 2002.

While the Bank originates both adjustable-rate and fixed-rate loans, the ability to originate loans is dependent upon the relative customer demand for loans in its market. In fiscal 2008, the Bank originated

\$123.6 million of loans, compared to \$130.9 million and \$120.0 million in fiscal 2007 and 2006, respectively. Of these loans, mortgage loan originations were \$82.2 million, \$77.8 million and \$74.0 million in fiscal 2008, 2007 and 2006, respectively.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2008, the Bank purchased \$17.7 million of new loans. At June 30, 2008, loan participations totaled \$28.9 million, or 8.4% of net loans receivable. At June 30, 2008, all of these participations were performing in accordance to their respective terms. The Bank will evaluate purchasing additional loan participations, based in part on local loan demand, liquidity, portfolio and leverage rate.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

| | 2008 | Year Ended June 30, 2007 | 2006 |
|--|------------------------|-----------------------------|------------|
| | (Dollars in thousands) | | |
| Total loans at beginning of period | \$ 316,462 | \$ 288,662 | \$ 273,174 |
| Loans originated: | | | |
| One-to four-family residential | 31,879 | 29,935 | 31,079 |
| Multi-family residential and commercial real estate | 39,518 | 36,976 | 32,754 |
| Construction loans | 10,815 | 10,887 | 10,143 |
| Commercial and industrial | 25,350 | 38,342 | 36,265 |
| Consumer and others | 16,065 | 14,803 | 9,728 |
| Total loans originated | 123,627 | 130,943 | 119,969 |
| Loans purchased: | | | |
| Total loans purchased | 17,725 | 14,220 | 4,118 |
| Loans sold: | | | |
| Total loans sold | (4,566) | (10,599) | (5,184) |

| | | | |
|------------------------------------|------------|------------|------------|
| Principal repayments | (90,425) | (98,655) | (97,141) |
| Participation principal repayments | (9,925) | (7,820) | (6,018) |
| Foreclosures | (654) | (289) | (256) |
| Net loan activity | 35,782 | 27,800 | 15,488 |
| Total loans at end of period | \$ 352,244 | \$ 316,462 | \$ 288,662 |

Loan Commitments

The Bank issues commitments for one- to four-family residential mortgage loans, operating or working capital lines of credit. Such commitments may be oral or in writing with specified terms, conditions and at a specified rate of interest and standby letters-of-credit. The Bank had outstanding net loan commitments of approximately \$51.5 million at June 30, 2008. See Note 13 of Notes to Consolidated Financial Statements contained in the Annual Report to Stockholders.

Loan Fees

In addition to interest earned on loans, the Bank receives income from fees in connection with loan originations, loan modifications, late payments and for miscellaneous services related to its loans. Income from these activities varies from period to period depending upon the volume and type of loans made and competitive conditions.

Asset Quality

Delinquent Loans. Generally, when a borrower fails to make a required payment on mortgage or installment loans, the Bank begins the collection process by mailing a computer generated notice to the customer. If the delinquency is not cured promptly, the customer is contacted again by notice or telephone. After an account secured by real estate becomes over 60 days past due, the Bank will send a 30-day demand notice to the customer which, if not cured or unless satisfactory arrangements have been made, will lead to foreclosure. For consumer loans, the Missouri Right-To-Cure Statute is followed, which requires issuance of specifically worded notices at specific time intervals prior to repossession or further collection efforts.

The following table sets forth the Bank's loan delinquencies by type and by amount at June 30, 2008.

| | Loans Delinquent For: | | | | | | Total Loans Delinquent 60 Days or More | |
|----------------------------|------------------------|---------|------------------|---------|---------|----------|--|---------|
| | 60-89 Days | | 90 Days and Over | | Numbers | Amounts | Numbers | Amounts |
| | Numbers | Amounts | Numbers | Amounts | | | | |
| | (Dollars in thousands) | | | | | | | |
| Residential real estate | 13 | \$ 770 | --- | \$ --- | 13 | \$ 770 | | |
| Commercial real estate | 2 | 211 | --- | --- | 2 | 211 | | |
| Commercial non-real estate | 1 | --- | --- | --- | 1 | --- | | |
| Other consumer | 6 | 16 | 2 | 6 | 8 | 22 | | |
| Totals | 22 | \$ 997 | 2 | \$ 6 | 24 | \$ 1,003 | | |

Non-Performing Assets. The table below sets forth the amounts and categories of non-performing assets in the Bank's loan portfolio. Loans are placed on non-accrual status when the collection of principal and/or interest become doubtful, and as a result, previously accrued interest income on the loan is removed from current income. The Bank has no reserves for uncollected interest and does not accrue interest on non-accrual loans. A loan may be transferred back to accrual status once a satisfactory repayment history has been restored. Foreclosed assets held for sale include assets acquired in settlement of loans and are shown net of reserves.

At June 30, 2008, the Bank had one loan on which interest was not being accrued, in accordance with SFAS No. 114 as amended by SFAS No. 118. The Bank would have recorded a nominal amount of interest income during the years

ended June 30, 2008 and 2007, and 2006, on non-accrual loans, if these loans had been performing in accordance with their terms during such periods. Interest income recognized on non-accrual loans for the years ended June 30, 2008, 2007, and 2006, was considered nominal.

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The following table sets forth information with respect to the Bank's non-performing assets as of the dates indicated. At the dates indicated, the Bank had no restructured loans within the meaning of SFAS 15.

| | 2008 | 2007 | At June 30, 2006 | | 2005 | 2004 |
|--|--------|--------|------------------------|--------|--------|--------|
| | | | (Dollars in thousands) | | | |
| Nonaccruing loans: | | | | | | |
| Residential real estate | \$ --- | \$ --- | \$ --- | \$ --- | \$ 52 | \$ --- |
| Commercial real estate | --- | --- | --- | --- | --- | --- |
| Consumer | --- | 2 | 51 | 41 | 4 | --- |
| Commercial business | --- | --- | --- | 334 | --- | --- |
| Total | --- | \$ 2 | \$ 51 | \$ 427 | \$ 4 | --- |
| Loans 90 days past due accruing interest: | | | | | | |
| Residential real estate | \$ --- | \$ --- | \$ --- | \$ 78 | \$ 114 | --- |
| Commercial real estate | --- | 20 | --- | --- | --- | --- |
| Consumer | 6 | 4 | 2 | 6 | 17 | --- |
| Commercial business | --- | --- | --- | 60 | --- | --- |
| Total | \$ 6 | \$ 24 | \$ 2 | \$ 144 | \$ 131 | --- |
| Total nonperforming loans | \$ 6 | \$ 26 | \$ 53 | \$ 571 | \$ 135 | --- |
| Foreclosed assets held for sale: | | | | | | |
| Real estate owned | \$ 38 | \$ 111 | \$ 200 | \$ 87 | \$ 163 | --- |
| Other nonperforming assets | 24 | 11 | 16 | 7 | 17 | --- |
| Total nonperforming assets | \$ 68 | \$ 148 | \$ 269 | \$ 665 | \$ 315 | --- |