

SOUTHERN MISSOURI BANCORP INC
Form 10-K
September 21, 2011

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, 2011 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:

| | |
|------------------------------------------|--------------------------------------------|
| Title of each class: | Name of each exchange on which registered: |
| Common Stock, par value \$0.01 per share | The Nasdaq Global Market |

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 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 (§ 232.402 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files. YES ___ NO ___

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. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO x

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the high and low traded price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was \$26.5 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 7, 2011, there were issued and outstanding 2,098,976 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, 2011.

Part III of Form 10-K - Portions of the Proxy Statement for the 2011 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") Global Market 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. converted from a Missouri chartered stock savings bank to a Missouri state chartered trust company with banking powers ("Charter Conversion"). On June 1, 2009, the institution changed its name to Southern Bank ("Bank").

The primary regulator of the Bank is the Missouri Division of Finance. The Bank is a member of the Federal Reserve, and the Federal Reserve Board ("FRB") is the Bank's primary federal regulator. 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 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, 2011, the Company had total assets of \$688.2 million, total deposits of \$560.1 million and stockholders' equity of \$55.7 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, debt securities, MBS, CMOs 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.

On December 5, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"), the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "CPP Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Company (i) sold 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "CPP Series A Preferred Stock") for a purchase price of \$9,550,000 in cash and (ii) issued a warrant (the "Warrant") to purchase 114,326 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), for a per share

price of \$12.53 per share. The CPP Series A Preferred Stock is entitled to cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The CPP Series A Preferred Stock may be redeemed by the Company at any time, subject to consultation. The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$12.53 per share of the Common Stock. In July 2011, the CPP Series A Preferred Stock was redeemed by the Company simultaneously with its issuance to the Treasury of preferred stock under the terms of the Small Business Lending Fund (SBLF). The Warrant remains outstanding.

Pursuant to the terms of the CPP Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Junior Stock

(as defined below) and Parity Stock (as defined below) was subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share (\$0.12) declared on the Common Stock prior to December 5, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also was restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the CPP Series A Preferred Stock, (b) the date on which the CPP Series A Preferred Stock has been redeemed in whole; and (c) the date Treasury has transferred all of the CPP Series A Preferred Stock to third parties. In addition, the ability of the Company to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its Junior Stock and Parity Stock was subject to restrictions in the event that the Company fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its CPP Series A Preferred Stock. "Junior Stock" means the Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the CPP Series A Preferred Stock as to dividend rights and/or rights on liquidation, dissolution or winding up of the Company. "Parity Stock" means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the CPP Series A Preferred Stock as to dividend rights and/or rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).

On December 17, 2010, the Bank entered into a Purchase and Assumption Agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of the former First Southern Bank, with headquarters in Batesville, Arkansas, and one branch location in Searcy, Arkansas. As a result of the transaction, the Company acquired loans recorded at a fair value of \$114.6 million and deposits recorded at a fair value of \$130.8 million, at December 17, 2010. See Note 17 to the Notes to the Consolidated Financial Statements contained in the Annual Report to Stockholders.

Recent Developments

On July 21, 2011, as part of the Treasury's SBLF program, the Company entered into a Small Business Lending Fund-Securities Purchase Agreement ("SBLF Purchase Agreement") with the Secretary of the Treasury, pursuant to which the Company (i) sold 20,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "SBLF Preferred Stock") to the Secretary of the Treasury for a purchase price of \$20,000,000. The SBLF Preferred Stock was issued pursuant to the SBLF program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small business by providing capital to qualified community banks with assets of less than \$10 billion.

The SBLF Preferred Stock qualifies as Tier 1 capital. The SBLF Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QBSL" (as defined in the SBLF Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QBSL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period has been set at 2.8155%. For the second through ninth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QBSL. If the level of the Bank's qualified small business loans declines so that the percentage increase in QBSL as compared to the baseline level is less than 10%, then the dividend rate payable on the SBLF Preferred Stock would increase. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QBSL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, whether or not consecutive, the holder of the SBLF Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, whether or not consecutive, and if the then outstanding aggregate liquidation amount of the SBLF Preferred Stock is at least \$20,000,000, then the holder of the SBLF Preferred Stock will have the right to designate two directors to the Board of Directors of the Company. The SBLF Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the

approval of its federal banking regulator. As required by the Purchase Agreement, \$9,635,000 of the proceeds from the sale of the SBLF Preferred Stock was used to redeem the 9,550 shares of the Company's CPP Series A Preferred Stock, Series A issued in 2008 to the Treasury, plus the accrued dividends owed on the TARP preferred shares.

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;
 - fluctuations in interest rates and in real estate values;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the U.S. Government and other governmental initiatives affecting the financial services industry;
- the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
 - our ability to access cost-effective funding;
- 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;
- expected cost savings, synergies and other benefits from the Company's merger and acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected;
 - fluctuations in real estate values and both residential and commercial real estate market conditions;
 - demand for loans and deposits in our market area;
 - legislative or regulatory changes that adversely affect our business;
-

results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or to write-down assets;

- the impact of technological changes; 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, 15 additional full service offices located in Poplar Bluff (2), Van Buren, Dexter, Kennett, Doniphan, Sikeston, Qulin, and Matthews, Missouri, and Paragould, Jonesboro, Leachville, Brookland, Batesville, and Searcy, Arkansas, and loan production offices in Springfield, Missouri, and Little Rock, Arkansas. In August 2011, the Company converted its loan production office in Springfield, Missouri, to a full service branch. At June 30, 2011, the Bank considered its primary market area to be as follows: the Bank operates ten branches in six southeast Missouri counties, with one branch in a municipality that straddles a county line and is mostly situated in a seventh county. Those seven counties have a population of roughly 180,000 persons. In northeast and north central Arkansas, the Bank's six full-service branches are located in five counties with a population of roughly 300,000 persons. The Bank also serves a few communities just outside these county borders, but without a notable impact on the demographics of the market area. Springfield, Missouri, is situated in Greene County, Missouri, with a population of 274,000, and anchors the surrounding Metropolitan Statistical Area (MSA), which boasted a population of nearly 440,000 at the 2010 census. The Bank's southeast Missouri and northeast and north central Arkansas markets are primarily rural in nature with economies supported by manufacturing activity, agriculture (livestock, rice, timber, soybeans, wheat, melons, corn, and cotton), healthcare, and education. Large employers include hospitals, manufacturers, school districts, and colleges. In the Springfield market, major employers include healthcare providers, educational institutions, federal, local, and state government, retailers, and transportation and distribution firms.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. At June 30, 2011, the Bank was one of 50 bank or saving association groups located in its southeast Missouri and northeast Arkansas market area, and one of 30 bank or saving association groups located in Springfield, Missouri (six of these overlap with the Bank's southeast Missouri and northeast and north central Arkansas markets).

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

The Company maintains a website at www.bankwithsouthern.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. The Company currently makes available on or through its website its 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 2011 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 20 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 20 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 18 and 19 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 and multifamily residential real estate, commercial and agricultural real estate, construction loans on residential and commercial properties, commercial and agricultural 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 our 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 next level of authority, which may include the Commercial Loan Committee or the Agricultural Loan Committee. The Commercial Loan Committee consists of several senior lending officers of the Bank and is responsible for approving commercial lending relationships up to \$500,000. The Agricultural Loan Committee consists of several senior lending officers of the Bank and is responsible for approving agricultural lending relationships of up to \$750,000. Loan requests above these approval authorities are presented to the Loan Officers Committee, comprised of our President and our Chief Lending Officer, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in aggregate, in excess of 1,000,000 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, 2011, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately \$17.0 million. However, the Bank's internal lending limit established by the Board of Directors is \$10.0 million. On limited occasions and with board approval, the Bank has allowed exceptions to its internal lending limit. At June 30, 2011, the Bank's five largest credit relationships outstanding ranged from \$8.0 million to \$10.9 million, net of participation interests sold. As of June 30, 2011, the majority of these credits were commercial real estate, commercial, or multi-family real estate loans and all of them continued to perform 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.

| | 2011 | | At June 30, 2010 | | 2009 | |
|------------------------------|------------|---------|---------------------|---------|--------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | |
| Type of Loan: | | | | | | |
| Mortgage Loans: | | | | | | |
| Residential real estate | \$ 199,855 | 35.91 | % \$ 158,494 | 37.86 | % \$ 155,490 | 42.14 |
| Commercial real estate(1) | 185,159 | 33.27 | 121,526 | 29.03 | 97,161 | 26.33 |
| Construction | 29,921 | 5.38 | 27,951 | 6.68 | 23,532 | 6.38 |
| Total mortgage loans | 414,965 | 74.56 | 307,971 | 73.56 | 276,183 | 74.85 |
| Other Loans: | | | | | | |
| Automobile loans | 9,024 | 1.62 | 8,442 | 2.02 | 8,329 | 2.26 |
| Commercial business(2) | 126,290 | 22.69 | 97,481 | 23.28 | 89,066 | 24.14 |
| Home equity | 14,027 | 2.52 | 12,879 | 3.08 | 10,976 | 2.97 |
| Other | 6,912 | 1.24 | 5,003 | 1.19 | 3,836 | 1.04 |
| Total other loans | 156,253 | 28.07 | 123,805 | 29.56 | 112,207 | 30.41 |
| Total loans | 571,218 | 102.63 | 431,776 | 103.13 | 388,390 | 105.26 |
| Less: | | | | | | |
| Undisbursed loans in process | 8,330 | 1.50 | 8,705 | 2.08 | 15,511 | 4.21 |
| Deferred fees and discounts | (126) | (0.02) | (121) | (0.03) | (107) | (0.03) |
| Allowance for loan losses | 6,438 | 1.16 | 4,509 | 1.08 | 3,993 | 1.08 |
| Net loans receivable | \$ 556,576 | 100.00 | % \$ 418,683 | 100.00 | % \$ 368,993 | 100.00 |
| Type of Security: | | | | | | |
| Residential real estate | | | | | | |
| One-to four-family | \$ 189,282 | 34.01 | \$ 167,622 | 40.04 | \$ 158,739 | 43.02 |
| Multi-family | 30,272 | 5.44 | 12,475 | 2.98 | 14,171 | 3.84 |
| Commercial real estate | 145,453 | 26.13 | 96,601 | 23.07 | 74,937 | 20.31 |
| Land | 52,933 | 9.51 | 34,518 | 8.24 | 29,584 | 8.02 |
| Commercial | 123,295 | 22.15 | 94,224 | 22.51 | 87,817 | 23.80 |
| Consumer and other | 29,983 | 5.39 | 26,336 | 6.29 | 23,142 | 6.27 |
| Total loans | 571,218 | 102.63 | 431,776 | 103.13 | 388,390 | 105.26 |
| Less: | | | | | | |
| Undisbursed loans in process | 8,330 | 1.50 | 8,705 | 2.08 | 15,511 | 4.21 |
| Deferred fees and discounts | (126) | (0.02) | (121) | (0.03) | (107) | (0.03) |
| Allowance for loan losses | 6,438 | 1.16 | 4,509 | 1.08 | 3,993 | 1.08 |
| Net loans receivable | \$ 556,576 | 100.00 | % \$ 418,683 | 100.00 | % \$ 368,993 | 100.00 |

(1) Commercial real estate loan balances included farmland and other agricultural-related real estate loans of \$42.4 million, \$28.3 million, and \$21.3 million, as of June 30, 2011, 2010, and 2009, respectively.

(2)

Commercial business loan balances included agricultural equipment and production loans of \$45.3 million, \$35.9 million and \$27.5 million as of June 30, 2011, 2010, and 2008, respectively.

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

| | 2011 | | At June 30, 2010 | | 2009 | | | |
|------------------------------|------------|----------|---------------------|----------|--------------|----------|---|--|
| | Amount | Percent | Amount | Percent | Amount | Percent | | |
| (Dollars in thousands) | | | | | | | | |
| Type of Loan: | | | | | | | | |
| Fixed-Rate Loans: | | | | | | | | |
| Residential real estate | \$ 129,967 | 23.35 | % \$ 107,190 | 25.60 | % \$ 107,994 | 29.27 | % | |
| Commercial real estate | 120,327 | 21.62 | 70,643 | 16.87 | 52,169 | 14.14 | | |
| Construction | 27,947 | 5.02 | 21,467 | 5.13 | 18,444 | 5.00 | | |
| Consumer | 15,934 | 2.86 | 13,439 | 3.21 | 12,140 | 3.29 | | |
| Commercial business | 77,154 | 13.86 | 50,747 | 12.12 | 50,364 | 13.65 | | |
| Total fixed-rate loans | 371,329 | 66.72 | 263,486 | 62.93 | 241,111 | 65.35 | | |
| Adjustable-Rate Loans: | | | | | | | | |
| Residential real estate | 69,917 | 12.56 | 51,304 | 12.25 | 47,497 | 12.87 | | |
| Commercial real estate | 64,831 | 11.65 | 50,883 | 12.15 | 44,992 | 12.19 | | |
| Construction | 1,975 | 0.35 | 6,484 | 1.55 | 5,087 | 1.38 | | |
| Consumer | 14,030 | 2.52 | 12,885 | 3.08 | 11,002 | 2.98 | | |
| Commercial business | 49,136 | 8.83 | 46,734 | 11.16 | 38,701 | 10.49 | | |
| Total adjustable-rate loans | 199,889 | 35.91 | 168,290 | 40.20 | 147,279 | 39.91 | | |
| Total loans | 571,218 | 102.63 | 431,776 | 103.13 | 388,390 | 105.26 | | |
| Less: | | | | | | | | |
| Undisbursed loans in process | 8,330 | 1.50 | 8,705 | 2.08 | 15,511 | 4.21 | | |
| Net deferred loan fees | (126) | (0.02) | (121) | (0.03) | (107) | (0.03) | | |
| Allowance for loan loss | 6,438 | 1.16 | 4,509 | 1.08 | 3,993 | 1.08 | | |
| Net loans receivable | \$ 556,576 | 100.00 % | \$ 418,683 | 100.00 % | \$ 368,993 | 100.00 % | | |

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, 2011, residential loans secured by one- to four-family residences totaled \$177.4 million, or 31.9% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2011, the Bank originated \$17.4 million of ARM loans and \$11.1 million of fixed-rate loans that were secured by one- to four-family residences. An additional \$9.2 million in fixed-rate one- to four-family residential loans were originated for sale on the secondary market. 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 50 basis points, but does not require private mortgage insurance. At June 30, 2011, the remaining balance of loans originated with a loan-to-value ratio in excess of 80% was \$45.0 million. For fiscal years ended June 30,

2011, 2010, and 2009, originations of one- to four-family loans in excess of 80% loan-to-value have totaled \$6.7 million, \$7.9 million and \$9.6 million, respectively, a total of \$24.2 million. The remaining balance of those loans at June 30, 2011, was \$19.3 million. Originating loans with higher loan-to-value ratios presents additional credit risk to the Company. Consequently, the Company limits this product to borrowers with a favorable credit history and a demonstrable ability to service the debt. 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, 2011, one- to four-family loans with a fixed rate totaled \$117.5 million, and had a weighted-average maturity of 167 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, initial rates which may be at a premium or discount, 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, 2011, loans tied to the CMT index totaled \$54.4 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. Most properties securing real estate loans made by the Bank during fiscal 2011 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.

The Company also originates loans secured by multi-family residential properties that are generally located in the Company's primary market area. At June 30, 2011, the Bank had \$22.5 million, or 4.0% of net loans receivable, in multi-family residential real estate. The majority of the multi-family residential loans that are originated by the Bank are amortized over periods generally up to 20 years, with balloon maturities up to five years. Both fixed and adjustable interest rates are offered and it is typical for the Company to include an interest rate "floor" in the loan agreement. Variable rate loans typically adjust daily, monthly, quarterly or annually based on the Wall Street prime interest rate. Generally, multi-family residential loans do not exceed 85% of the lower of the appraised value or purchase price of the secured property. The Company generally requires a Board-approved independent certified fee appraiser to be engaged in determining the collateral value. As a general rule, the Company requires the unlimited guaranty of all individuals (or entities) owning (directly or indirectly) 20% or more of the stock of the borrowing entity.

The primary risk associated with multifamily loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. High unemployment or generally weak economic conditions may result in borrowers having to provide rental rate concessions to achieve adequate occupancy rates. In an effort to reduce these risks, the Bank will evaluate the guarantor's ability to inject personal funds as a tertiary source of repayment.

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, 2011, the Bank had \$185.2 million in commercial real estate loans, which represented 33.3% of net loans receivable. Of this amount, \$42.4 million were loans secured by agricultural properties. The increase over the last several fiscal years in agricultural lending is the result of an intentional focus by the Bank on that segment of our market, including the hiring of personnel with knowledge of agricultural lending and experience in that type of business development. The Company expects to continue to grow its agricultural lending

portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Company expects to continue to maintain or increase the percentage of commercial real estate loans in its total portfolio.

Most 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. The Bank typically includes an interest rate "floor" in the loan agreement. The Bank's fixed-rate commercial real estate portfolio has a weighted average maturity of 31 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. Agricultural real estate terms offered differ slightly, with amortization schedules of up to 25 years with an 80% loan-to-value ratio, or 30 years with a 75% loan-to-value ratio. 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, 2011, the Bank had \$29.9million, or 5.4% of net loans receivable in construction loans outstanding.

Construction loans originated by the Bank are generally secured by 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 or non-owner occupied commercial real estate. At June 30, 2011, \$8.9 million of the Bank's construction loans were secured by one- to four-family residential real estate (of which \$5.2 million was for speculative construction), \$7.8 million of which were secured by multifamily residential real estate, and \$13.2 million of which were secured by commercial real estate. 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 may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally 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 generally limited to 80% 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, 2011, the Bank's consumer loan portfolio totaled \$29.9 million, or 5.4% of net loans receivable.

Home equity loans represented 46.8% of the Bank's consumer loan portfolio at June 30, 2011, and totaled \$14.0 million, or 2.5% 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, 2011, lines of credit up to 80% of the property value represented 83.7% of outstanding balances, and 87.6% of balances and commitments; lines of credit for more than 80%, but not exceeding 90%, of the property value represented 15.7% of outstanding balances and 11.9% of balances and commitments; and lines of credit in excess of 90% of the property value represented 0.6% of outstanding balances and 0.5% of balances and commitments.

Automobile loans represented 30.1% of the Bank's consumer loan portfolio at June 30, 2011, and totaled \$9.0 million, or 1.6% of net loans receivable. Of that total, \$201,000 represented loans originated by auto dealers. The Bank generally pays a negotiated fee back to the dealer for these loans. 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. 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. 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. At June 30, 2011, the Bank had \$126.3 million in commercial business loans outstanding, or 22.7% of net loans receivable. Of this amount, \$45.3 million were loans related to agriculture, including amortizing equipment loans and annual production lines. The increase over the last several fiscal years in agricultural lending is the result of an intentional focus by the Bank on that segment of our market, including the hiring of personnel with knowledge of agricultural lending and experience in that type of business development. The Company expects to continue to grow its agricultural lending portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Bank expects to continue to maintain or increase the current percentage of commercial business loans in its total loan portfolio.

The Bank currently offers both fixed and adjustable rate commercial business loans. At year end, the Bank had \$77.2 million in fixed rate and \$49.1 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 typically includes an interest rate "floor" in the loan agreement.

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 or agricultural production lines 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, 2011. Commitments to extend credit totaled \$73.6 million at June 30, 2011.

| | Less Than 1 year | 1-3 Years | 4-5 years (In Thousands) | More Than 5 Years | Total |
|------------------------------------|---------------------|-----------|-----------------------------|----------------------|-----------|
| Federal Home Loan Bank advances | \$--- | \$6,000 | \$3,000 | \$24,500 | \$33,500 |
| Certificates of deposit | 181,347 | 61,402 | 21,898 | --- | 264,647 |
| Total | \$181,347 | \$67,462 | \$24,898 | \$24,500 | \$298,147 |

| | Less Than 1 year | 1-3 Years | 4-5 years (In Thousands) | More Than 5 Years | Total |
|----------------------------------|---------------------|-----------|-----------------------------|----------------------|----------|
| Construction loans in process | \$8,330 | \$--- | \$--- | \$--- | \$8,330 |
| Other commitments | 53,813 | 3,136 | 1,806 | 6,556 | 65,331 |
| | \$62,143 | \$3,136 | \$1,806 | \$6,556 | \$73,641 |

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2011 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 | \$24,769 | \$61,776 | \$27,213 | \$86,127 | \$199,885 |
| Commercial real estate | 64,939 | 102,902 | 10,240 | 7,078 | 185,159 |
| Construction | 29,621 | 300 | -- | -- | 29,921 |
| Consumer | 4,679 | 13,765 | 11,469 | 50 | 29,963 |
| Commercial business | 77,064 | 37,070 | 3,423 | 8,733 | 126,290 |
| Total loans | \$201,072 | \$215,813 | \$52,345 | \$101,988 | \$571,218 |

As of June 30, 2011, loans with a maturity date after June 30, 2012 with fixed interest rates totaled \$256.1 million, and loans with a maturity date after June 30, 2012 with adjustable rates totaled \$122.4 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 2011, the Bank originated \$150.4 million of loans, compared to \$145.9 million and \$141.3 million in fiscal 2010 and 2009, respectively. Of these loans, mortgage loan originations were \$118.6 million, \$98.6 million and \$94.4 million in fiscal 2011, 2010 and 2009, respectively.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2011, the Bank purchased \$8.4 million of new loan participations. At June 30, 2011, loan participations totaled \$17.5 million, or 3.1% of net loans receivable. At June 30, 2011, 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.

| | 2011 | Year Ended June 30, 2010 | 2009 |
|-----------------------------------------------------|------------------------|-----------------------------|------------|
| | (Dollars in thousands) | | |
| Total loans at beginning of period | \$ 431,776 | \$ 388,390 | \$ 352,244 |
| Loans originated: | | | |
| One-to four-family residential | 34,288 | 35,862 | 36,598 |
| Multi-family residential and commercial real estate | 58,016 | 41,325 | 45,956 |
| Construction loans | 26,247 | 21,444 | 11,821 |
| Commercial and industrial | 24,029 | 31,677 | 30,921 |
| Consumer and others | 7,841 | 15,638 | 15,959 |
| Total loans originated | 150,241 | 145,946 | 141,255 |
| Loans purchased: | | | |
| Total loans purchased(1) | 123,007 | 25,887 | 10,887 |
| Loans sold: | | | |
| Total loans sold | (14,501) | (6,917) | (10,203) |
| Principal repayments | (107,843) | (101,162) | (92,906) |
| Participation principal repayments | (10,469) | (18,442) | (12,410) |
| Foreclosures | (1,173) | (1,926) | (477) |
| Net loan activity | 139,442 | 43,386 | 36,146 |
| Total loans at end of period | \$ 571,218 | \$ 431,776 | \$ 388,390 |

(1) Amount reported in fiscal 2011 and 2010 includes the Company's acquisition of loans recorded at a \$114.6 million and \$15.1 million fair value, respectively, in the December 2010 acquisition of the former First Southern Bank and in the July 2009 acquisition of the Southern Bank of Commerce.

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 \$73.6 million at June 30, 2011. See Note 15 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, 2011.

| | Loans Delinquent For: | | | | Total Loans Delinquent 60 Days or More | |
|-------------------------------|-----------------------|---------|------------------------|---------|----------------------------------------------|---------|
| | 60-89 Days | | 90 Days and Over | | Numbers | Amounts |
| | Numbers | Amounts | Numbers | Amounts | | |
| | | | (Dollars in thousands) | | | |
| Residential real estate | 11 | \$1,097 | 6 | \$426 | 17 | \$1,523 |
| Commercial real estate | --- | --- | 2 | 125 | 2 | 125 |
| Commercial non-real estate | 1 | 14 | 2 | 2 | 3 | 16 |
| Other consumer | 7 | 18 | 6 | 122 | 13 | 140 |
| Totals | 19 | \$1,129 | 16 | \$675 | 35 | \$1,804 |

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.

For information regarding accrual of interest on impaired loans, see Note 4 of Notes to the Consolidated Financial Statements contained in the Annual Report to Stockholders.

The Company generally treats loans acquired with impaired credit quality as an accruing asset, despite reporting such loans as impaired, because these loans are recorded at acquisition at fair value, which includes an accretable discount which is recorded as interest income over the expected life of the obligation.

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 ASC Topic 310, formerly SFAS 15.

| | 2011 | 2010 | At June 30, | | 2008 | 2007 | | |
|--------------------------------------------|---------|---------|------------------------|--------|--------|------|--|--|
| | | | 2009 | 2008 | | | | |
| | | | (Dollars in thousands) | | | | | |
| Nonaccruing loans: | | | | | | | | |
| Residential real estate | \$97 | \$154 | \$343 | \$--- | \$--- | | | |
| Commercial real estate | 152 | 51 | 241 | --- | --- | | | |
| Consumer | 12 | 24 | 9 | --- | 2 | | | |
| Commercial business | 2 | 9 | 66 | --- | --- | | | |
| Total | \$263 | \$238 | \$659 | \$--- | \$2 | | | |
| Loans 90 days past due accruing interest: | | | | | | | | |
| Residential real estate | \$189 | \$9 | \$137 | \$--- | \$--- | | | |
| Commercial real estate | 125 | --- | --- | --- | 20 | | | |
| Consumer | 122 | 51 | --- | 6 | 4 | | | |
| Commercial business | 2 | 34 | --- | --- | --- | | | |
| Total | \$438 | \$94 | \$137 | \$6 | \$24 | | | |
| Total nonperforming loans | \$701 | \$332 | \$796 | \$6 | \$26 | | | |
| Nonperforming investments | \$125 | \$125 | \$125 | \$--- | \$--- | | | |
| Foreclosed assets held for sale: | | | | | | | | |
| Real estate owned | 1,515 | 1,501 | 313 | 38 | 111 | | | |
| Other nonperforming assets | 34 | 90 | 137 | 24 | 11 | | | |
| Total nonperforming assets | \$2,375 | \$2,048 | \$1,371 | \$68 | \$148 | | | |
| Total nonperforming loans to net loans | 0.13 | % 0.08 | % 0.22 | % 0.00 | % 0.01 | % | | |
| Total nonperforming loans to total assets | 0.10 | % 0.06 | % 0.17 | % 0.00 | % 0.01 | % | | |
| Total nonperforming assets to total assets | 0.35 | % 0.37 | % 0.29 | % 0.02 | % 0.04 | % | | |

Real Estate Owned. Real estate properties acquired through foreclosure or by deed in lieu of foreclosure are recorded at the lower of cost or fair value, less estimated disposition costs. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Management periodically updates real estate valuations and if the value declines, a specific provision for losses on such property is established by a charge to operations. At June 30, 2011, the Company's balance of real estate owned totaled \$1.5 million and included 11 residential and 4 nonresidential properties.

Asset Classification. Applicable regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, regulatory examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are

characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. When an insured institution classifies problem assets as loss, it charges off the balance of the assets. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses, may be designated as special mention. The Bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the FRB and the Missouri Division of Finance, which can order the establishment of additional loss allowances.

On the basis of management's review of the assets of the Company, at June 30, 2011, classified assets totaled \$11.6 million, or 1.69% of total assets as compared \$9.4 million, or 1.71% of total assets at June 30, 2010. Of the amount classified as of June 30, 2011, \$11.5 million was considered substandard, while \$87,000 was considered doubtful. At June 30, 2011, significant classified assets included one loan relationship with outstanding classified balances of \$2.9 million, secured by commercial and agricultural real estate, and another loan relationship with outstanding classified balances of \$1.6 million, secured by commercial real estate and equipment, both classified due to concerns regarding the borrower's ability to generate sufficient cash flows to service the debt. All of the Company's investments in pooled trust preferred securities, with a book value of \$1.5 million, were classified, also due to concerns about the ability of the pools to continue to generate sufficient cash flows to service the debt. Three of these securities, with a book value of \$1.1 million (included in the total of \$1.5 million, above) have deferred interest payments as of June 30, 2011. With the exception of these three securities, all material classified assets were performing in accordance with terms at June 30, 2011.

Other Loans of Concern. In addition to the non-performing assets discussed above, there was also an aggregate of \$8.0 million in loans, consisting primarily of a \$5.5 million loan to a bank holding company, with respect to which management has doubts as to the ability of the borrowers to continue to comply with present loan repayment terms, which may ultimately result in the classification of such assets. The loan continued to perform according to terms as of June 30, 2011, but was identified as another loan of concern due to concerns regarding the borrower's ability to continue to generate sufficient cash flows to service the debt. At June 30, 2009, this loan was classified as "substandard" and was upgraded during fiscal 2010 based on actions taken by the borrower.

Allowance for Loan Losses. The Bank's allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of loan activity, including those loans which are being specifically monitored. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate provision for loan losses. These provisions for loan losses are charged against earnings in the year they are established. The Bank had an allowance for loan losses at June 30, 2011, of \$6.4 million, which represented 271% of nonperforming assets as compared to an allowance of \$4.5 million, which represented 220% of nonperforming assets at June 30, 2010.

At June 30, 2011, the Bank also had an allowance for credit losses on off-balance sheet credit exposures of \$557,000, as compared to \$562,000 at June 30, 2010. This amount is maintained as a separate liability account to cover estimated potential credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees.

Although management believes that it uses the best information available to determine the allowance, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from assumptions used in making the final determination. Future additions to the allowance will likely be the result of periodic loan, property and collateral reviews and thus cannot be predicted with certainty in advance.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated. Where specific loan loss reserves have been established, any difference between the loss reserve and the amount of loss realized has been charged or credited to current income.

| | 2011 | 2010 | Year Ended June 30, | | 2007 | |
|----------------------------------------------------------------------------|---------|---------|------------------------|-----------|---------|---|
| | | | 2009 | 2008 | | |
| | | | (Dollars in thousands) | | | |
| Allowance at beginning of period | \$4,509 | \$3,993 | \$3,199 | \$2,387 | \$1,879 | |
| Recoveries: | | | | | | |
| Residential real estate | 3 | 8 | 3 | 1 | 1 | |
| Construction real estate | 25 | --- | --- | --- | --- | |
| Commercial real estate | 1 | 3 | 6 | --- | --- | |
| Commercial business | 7 | 5 | 3 | 168 | 22 | |
| Consumer | 18 | 5 | 14 | 14 | 15 | |
| Total recoveries | 54 | 21 | 26 | 183 | 38 | |
| Charge offs: | | | | | | |
| Residential real estate | 158 | 153 | 19 | 34 | 83 | |
| Construction real estate | 158 | --- | --- | --- | --- | |
| Commercial real estate | 60 | 76 | 11 | --- | --- | |
| Commercial business | 67 | 118 | 242 | 5 | 24 | |
| Consumer | 66 | 83 | 111 | 55 | 56 | |
| Total charge offs | 509 | 430 | 383 | 94 | 163 | |
| Net (charge offs) recoveries | (455) | (409) | (357) | 89 | (125) | |
| Provision for loan losses | 2,385 | 925 | 1,151 | 723 | 633 | |
| Balance at end of period | \$6,439 | \$4,509 | \$3,993 | \$3,199 | \$2,387 | |
| Ratio of allowance to total loans outstanding at the end of the period | 1.14 | % 1.06 | % 1.07 | % 0.92 | % 0.76 | % |
| Ratio of net charge offs to average loans outstanding during the period | 0.09 | % 0.10 | % 0.10 | % (0.03) | % 0.04 | % |

The following table sets forth the breakdown of the allowance for loan losses by loan category for the periods indicated.

| | 2011 | | 2010 | | At June 30, 2009 | | 2008 | | 2007 | |
|---------------------------------|------------------------|--------------------------------------------------|---------|--------------------------------------------------|---------------------|--------------------------------------------------|---------|--------------------------------------------------|---------|--------------------------------------------------|
| | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans |
| | (Dollars in thousands) | | | | | | | | | |
| Residential real estate | \$1,618 | 34.99 % | \$902 | 36.71 % | \$750 | 40.03 % | \$626 | 42.40 % | \$279 | 42.98 % |
| Construction | 193 | 5.24 | 198 | 6.47 | 128 | 6.06 | 88 | 3.96 | 70 | 2.52 |
| Commercial real estate | 2,671 | 32.41 | 1,605 | 28.14 | 1,217 | 25.02 | 969 | 24.37 | 774 | 24.49 |
| Consumer | 441 | 5.25 | 473 | 6.10 | 367 | 5.96 | 333 | 6.11 | 256 | 6.10 |
| Commercial business | 1,515 | 22.11 | 1,330 | 22.58 | 1,038 | 22.93 | 952 | 23.16 | 784 | 23.91 |
| Unallocated | --- | --- | --- | --- | 493 | --- | 231 | --- | 234 | --- |
| Total allowance for loan losses | \$6,438 | 100.00 % | \$4,508 | 100.00 % | \$3,993 | 100.00 % | \$3,199 | 100.00 % | \$2,387 | 100.00 % |

Investment Activities

General. Under Missouri law, the Bank is permitted to invest in various types of liquid assets, including U.S. Government and State of Missouri obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, banker's acceptances, repurchase agreements, federal funds, commercial paper, investment grade corporate debt securities and obligations of States and their political sub-divisions. Generally, the investment policy of the Company is to invest funds among various categories of investments and repricing characteristics based upon the Bank's need for liquidity, to provide collateral for borrowings and public unit deposits, to help reach financial performance targets and to help maintain asset/liability management objectives.

The Company's investment portfolio is managed in accordance with the Bank's investment policy which was adopted by the Board of Directors of the Bank and is implemented by members of the asset/liability management committee which consists of the President, the CFO, the COO and three outside directors.

Investment purchases and/or sales must be authorized by the appropriate party, depending on the aggregate size of the investment transaction, prior to any investment transaction. The Board of Directors reviews all investment transactions. All investment purchases are identified as available-for-sale ("AFS") at the time of purchase. The Company has not classified any investment securities as hold-to-maturity over the last five years. Securities classified as "AFS" must be reported at fair value with unrealized gains and losses recorded as a separate component of stockholders' equity. At June 30, 2011, AFS securities totaled \$63.3 million (excluding FHLB and FRB membership stock). For information regarding the amortized cost and market values of the Company's investments, see Note 2 of Notes to Consolidated Financial Statements contained in the Annual Report to Stockholders.

As of June 30, 2011, the Company had no high risk derivative instruments and no outstanding hedging activities. Management has reviewed potential uses for derivative instruments and hedging activities, but has no immediate plans to employ these tools.

Debt and Other Securities. At June 30, 2011, the Company's debt and other securities portfolio totaled \$38.8 million, or 5.6% of total assets as compared to \$32.6 million, or 5.9% of total assets at June 30, 2010. During fiscal 2011, the Bank had \$17.6 million in maturities and \$23.3 million in security purchases. Of the securities that matured, \$16.6 million was called for early redemption. At June 30, 2011, the investment securities portfolio included \$13.0 million in U.S. government and government agency bonds, of which the full amount is subject to early redemption at the option of the issuer, and \$25.0 million in municipal bonds, of which \$22.3 million is subject to early redemption at the option of the issuer. The remaining portfolio consists of \$834,000 in other securities (including \$569,000 estimated fair value in pooled trust preferred securities). Based on projected maturities, the weighted average life of the investment securities portfolio at June 30, 2011, was 48 months. Membership stock held in the FHLB of Des Moines, totaling \$2.3 million, and the FRB of St. Louis, totaling \$719,000, was not included in the above totals.

At June 30, 2011, the Company owned four pooled trust preferred securities with a fair value of \$569,000 and a book value of \$1.5 million. The June 30, 2011, cash flow analysis for three of these securities showed it is probable the Company will receive all contracted principal and related interest projected, though interest payments have been deferred on two of the three securities. For the fourth security, an analysis at December 31, 2008, indicated other-than temporary impairment (OTTI), and the Company performed further analysis to determine the portion of the loss that was related to credit conditions of the underlying issuers. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. The discounted cash flow was based on anticipated default and recovery rates, and the resulting projected cash flows were discounted based on the yield anticipated at the time the security was purchased. Based on this analysis, the Company recorded an impairment charge of \$375,000 for the credit portion of the unrealized loss for this trust preferred security. This loss established a new, lower amortized cost basis of \$125,000 for this security, and

reduced non-interest income for the second quarter and fiscal year ended June 30, 2009. Analyses performed quarterly and at fiscal year end in 2011 indicated no further impairment of any securities owned by the Company. See Note 2 of Notes to the Consolidated Financial Statements contained in the Annual Report to Stockholders.

Mortgage-Backed Securities. At June 30, 2011, MBS totaled \$24.5 million, or 3.6%, of total assets as compared to \$34.3 million, or 6.2%, of total assets at June 30, 2010. During fiscal 2011, the Bank had maturities and prepayments of \$9.0 million and had no purchases of MBS. At June 30, 2011, the MBS portfolio included \$187,000 in adjustable-rate MBS, \$10.1 million in fixed-rate MBS and \$14.3 million in fixed rate collateralized mortgage obligations (CMOs), all of which passed the Federal Financial Institutions Examination Council's sensitivity test. Based on recent prepayment rates, the weighted average life of the MBS and CMOs at June 30, 2011 was 20.4 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual prepayment rates.

Investment Securities Analysis

The following table sets forth the Company's debt and other securities portfolio at carrying value and membership stock at the dates indicated.

| | 2011 | | At June 30, 2010 | | 2009 | | | |
|-----------------------------------------|------------|----------------------|------------------------|----------------------|------------|----------------------|---|--|
| | Fair Value | Percent of Portfolio | Fair Value | Percent of Portfolio | Fair Value | Percent of Portfolio | | |
| | | | (Dollars in thousands) | | | | | |
| U.S. government and government agencies | \$ 12,976 | 30.98 | % \$ 12,414 | 34.64 | % \$ 3,279 | 13.39 | % | |
| State and political subdivisions | 24,981 | 59.65 | 19,769 | 55.17 | 13,623 | 55.60 | | |
| FHLMC preferred stock | --- | --- | 6 | 0.02 | 8 | 0.03 | | |
| Other securities | 834 | 1.99 | 442 | 1.23 | 3,000 | 12.24 | | |
| FHLB membership stock | 2,369 | 5.66 | 2,622 | 7.32 | 4,592 | 18.74 | | |
| FRB membership stock | 719 | 1.72 | 583 | 1.63 | --- | --- | | |
| Total | \$41,879 | 100.00 | % \$35,836 | 100.00 | % \$24,502 | 100.00 | % | |

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The following table sets forth the maturities and weighted average yields of AFS debt securities in the Company's investment securities portfolio at June 30, 2011.

| | Amortized Cost | Available for Sale Securities June 30, 2011 Fair Value (Dollars in thousands) | Tax-Equiv. Wtd.-Avg.Yield | |
|------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------|------------------------------|---|
| U.S. government and government agency securities: | | | | |
| Due within 1 year | \$ --- | \$ --- | --- | % |
| Due after 1 year but within 5 years | --- | --- | --- | |
| Due after 5 years but within 10 years | 2,996 | 3,011 | 3.13 | |
| Due over 10 years | 9,995 | 9,965 | 2.43 | |
| Total | 12,991 | 12,976 | 2.35 | |
| State and political subdivisions: | | | | |
| Due within 1 year | --- | --- | --- | |
| Due after 1 year but within 5 years | 920 | 926 | 4.13 | |
| Due after 5 years but within 10 years | 4,534 | 4,644 | 4.85 | |
| Due over 10 years | 18,778 | 19,411 | 5.75 | |
| Total | 24,232 | 24,981 | 5.45 | |
| Other securities: | | | | |
| Due after 1 year but within 5 years | --- | --- | --- | |
| Due after 5 years but within 10 years | 247 | 266 | 5.92 | |
| Due over 10 years | 1,539 | 568 | 1.37 | |
| Total | 1,786 | 834 | 1.64 | |
| No stated maturity: | | | | |
| FHLB membership stock | 2,369 | 2,369 | 3.00 | |
| FRB membership stock | 719 | 719 | 6.00 | |
| Total | 3,088 | 3,088 | 3.70 | |
| Total debt and other securities | \$ 42,097 | \$ 41,879 | 3.93 | % |

The following table sets forth certain information at June 30, 2011 regarding the dollar amount of MBS and CMOs at amortized cost due, based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. MBS that have adjustable rates are shown at amortized cost as maturing at their next repricing date.

At June 30, 2011
(In thousands)

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Amounts due:

| | | |
|-------------------------------|----|--------|
| Within 1 year | \$ | --- |
| After 1 year through 3 years | | 844 |
| After 3 years through 5 years | | 61 |
| After 5 years | | 22,585 |
| Total | \$ | 23,490 |

The following table sets forth the dollar amount of all MBS and CMOs at amortized cost due, based on their contractual terms to maturity, one year after June 30, 2011, which have fixed, floating, or adjustable interest rates.

| | At June 30, 2011 (In thousands) | |
|--------------------------------------------------|------------------------------------|--------|
| Interest rate terms on amounts due after 1 year: | | |
| Fixed | \$ | 23,307 |
| Adjustable | | 183 |
| Total | \$ | 23,490 |

The following table sets forth certain information with respect to each MBS and CMO security at the dates indicated.

| | 2011 | | At June 30, 2010 | | 2009 | |
|-----------------------------------------------|-------------------|---------------|---------------------|---------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | | | |
| FHLMC certificates | \$4,947 | \$5,310 | \$7,317 | \$7,815 | \$10,163 | \$10,398 |
| GNMA certificates | 89 | 91 | 99 | 101 | 114 | 115 |
| FNMA certificates | 4,516 | 4,863 | 7,102 | 7,613 | 9,812 | 10,112 |
| Collateralized mortgage obligations issued | | | | | | |
| by government agencies | 13,938 | 14,272 | 18,064 | 18,805 | 18,925 | 19,644 |
| Total | \$23,490 | \$24,536 | \$32,582 | \$34,334 | \$39,014 | \$40,269 |

Deposit Activities and Other Sources of Funds

General. The Company's primary sources of funds are deposits, borrowings, payments of principal and interest on loans, MBS and CMOs, interest and principal received on investment securities and other short-term investments, and funds provided from operating results. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general market interest rates and overall economic conditions.

Borrowings, including FHLB advances, have been used at times to provide additional liquidity. Borrowings are used on an overnight or short-term basis to compensate for periodic fluctuations in cash flows, and are used on a longer term basis to fund loan growth and to help manage the Company's sensitivity to fluctuating interest rates.

Deposits. The Bank's depositors are generally residents and entities located in the State of Missouri or Arkansas. Deposits are attracted from within the Bank's market area through the offering of a broad selection of deposit instruments, including demand deposit accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, saving accounts, certificates of deposit and retirement savings plans. Deposit account terms vary according to the minimum balance required, the time periods the funds may remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Bank considers current market interest rates, profitability to the Bank, managing interest rate sensitivity and its customer preferences and concerns. The Bank's Asset/Liability Committee regularly reviews its deposit mix and pricing.

The Bank will periodically promote a particular deposit product as part of the Bank's overall marketing plan. Deposit products have been promoted through various mediums, which include radio and newspaper advertisements. The emphasis of these campaigns is to increase consumer awareness and market share of the Bank.

The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. The Bank has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. Based on its experience, the Bank believes that its deposits are relatively stable sources of funds. However, the ability of the Bank to attract and maintain certificates of deposit, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. The following table depicts the composition of the Bank's deposits at June 30, 2011:

| Weighted Average Interest Rate at 6/30 | Term | Category | Minimum Amount | Balance (In thousands) | Percentage of Total Deposits | |
|----------------------------------------------------|--------------------|----------------------------------|-------------------|------------------------------|------------------------------------|---|
| 0.00% | None | Non-interest Bearing | \$100 | \$32,848 | 5.86 | % |
| 2.15 | None | NOW Accounts | 100 | 152,475 | 27.22 | |
| 1.05 | None | Savings Accounts | 100 | 94,378 | 16.85 | |
| 1.14 | None | Money Market Deposit Accounts | 1,000 | 15,802 | 2.82 | |
| | | Certificates of Deposit | | | | |
| 1.43 | Less than 6 months | Fixed Rate/Term | 1,000 | 14,823 | 2.65 | |
| 1.00 | Less than 6 months | IRA Fixed Rate/Term | 1,000 | 1,656 | 0.30 | |
| 1.25 | 7-12 months | Fixed Rate/Term | 1,000 | 105,551 | 18.84 | |
| 1.33 | 7-12 months | IRA Fixed Rate/Term | 1,000 | 9,581 | 1.71 | |
| 1.82 | 13-24 months | Fixed Rate/Term | 1,000 | 54,118 | 9.67 | |
| 1.75 | 13-24 months | IRA Fixed Rate/Term | 1,000 | 7,660 | 1.37 | |
| 1.00 | 13-24 months | IRA Variable Rate/Fixed Term | 1,000 | 247 | 0.04 | |
| 2.34 | 25-36 months | Fixed Rate/Term | 1,000 | 27,105 | 4.84 | |
| 2.27 | 25-36 months | IRA Fixed Rate/Term | 1,000 | 7,747 | 1.38 | |
| 3.43 | 48 months and more | Fixed Rate/Term | 1,000 | 26,995 | 4.82 | |
| 3.39 | 48 months and more | IRA Fixed Rate/Term | 1,000 | 9,094 | 1.62 | |
| | | | | \$560,150 | 100.00 | % |

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The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2011. Jumbo certificates of deposit require minimum deposits of \$100,000 and rates paid on such accounts are generally negotiable.

| Maturity Period | Amount (In thousands) |
|--------------------------------|--------------------------|
| Three months or less | \$ 29,774 |
| Over three through six months | 25,406 |
| Over six through twelve months | 38,054 |
| Over 12 months | 39,335 |
| Total | \$ 132,569 |

Time Deposits by Rates

The following table sets forth the time deposits in the Bank classified by rates at the dates indicated.

| | 2011 | At June 30, 2010 (In thousands) | 2009 |
|-----------------|------------|---------------------------------------|------------|
| 0.00 - 0.99% | \$ 26,139 | \$ 5,577 | \$ --- |
| 1.00 - 1.99% | 148,430 | 82,606 | 45,306 |
| 2.00 - 2.99% | 57,994 | 57,961 | 51,985 |
| 3.00 - 3.99% | 25,888 | 33,905 | 47,720 |
| 4.00 - 4.99% | 4,651 | 10,737 | 13,898 |
| 5.00 - 5.99% | 1,545 | 1,735 | 1,397 |
| Total | \$ 264,647 | \$ 192,521 | \$ 160,306 |

The following table sets forth the amount and maturities of all time deposits at June 30, 2011.

| | Amount Due | | | | | Total | Percent of Total Certificate Accounts |
|-----------------|--------------------------|--------------|--------------|--------------|------------------|-----------|------------------------------------------------|
| | Less Than One Year | 1-2 Years | 2-3 Years | 3-4 Years | After 4 Years | | |
| | (Dollars in thousands) | | | | | | |
| 0.00 - 0.99% | \$ 22,818 | \$ 2,144 | \$ 905 | \$ 45 | \$ 227 | \$ 26,139 | 9.88 % |
| 1.00 - 1.99% | 124,147 | 19,058 | 5,002 | 183 | 40 | 148,430 | 56.09 |

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| | | | | | | | |
|-----------------|------------|-----------|-----------|----------|-----------|------------|---------|
| 2.00 - 2.99% | 28,929 | 13,870 | 7,199 | 1,084 | 6,912 | 57,994 | 21.91 |
| 3.00 - 3.99% | 2,490 | 4,663 | 5,328 | 7,785 | 5,622 | 25,888 | 9.78 |
| 4.00 - 4.99% | 2,096 | 1,977 | 578 | --- | --- | 4,651 | 1.76 |
| 5.00 - 5.99% | 867 | 678 | --- | --- | --- | 1,545 | 0.58 |
| Total | \$ 181,347 | \$ 42,390 | \$ 19,012 | \$ 9,097 | \$ 12,801 | \$ 264,647 | 100.00% |

Deposit Flow

The following table sets forth the balance of savings deposits in the various types of savings accounts offered by the Bank at the dates indicated.

| | Amount | 2011 | | At June 30, 2010 | | | 2009 | | Amount | Increase | |
|----------------------------------------------------------------------------------------------------------------|-----------|------------------------|------------------------|---------------------|------------------------|------------------------|------------------------|------------------------|--------|-----------|--|
| | | Percent of Total | Increase (Decrease) | Amount | Percent of Total | Increase (Decrease) | Percent of Total | Increase (Decrease) | | | |
| (Dollars in thousands) | | | | | | | | | | | |
| Noninterest bearing NOW checking Savings accounts Money market deposit Fixed-rate certificates which mature(1) | \$32,848 | 5.86 | % \$4,053 | \$28,795 | 6.81 | % \$7,491 | \$21,304 | 6.83 | % | \$2,083 | |
| checking | 152,475 | 27.22 | 48,762 | 103,713 | 24.52 | 38,599 | 65,114 | 20.87 | | 27,964 | |
| Savings accounts | 94,379 | 16.85 | 3,994 | 90,385 | 21.37 | 31,787 | 58,598 | 18.78 | | (14,825) | |
| Money market deposit | 15,802 | 2.82 | 8,322 | 7,480 | 1.77 | 847 | 6,633 | 2.13 | | (5,472) | |
| Fixed-rate certificates which mature(1) | | | | | | | | | | | |
| Within one year | 181,224 | 32.35 | 33,400 | 147,824 | 34.96 | 35,160 | 112,664 | 36.12 | | (17,217) | |
| Within three years | 61,277 | 10.94 | 29,918 | 31,359 | 7.42 | (1,657) | 33,016 | 10.58 | | 19,698 | |
| After three years | 21,899 | 3.91 | 8,814 | 13,085 | 3.09 | (1,259) | 14,344 | 4.60 | | 7,468 | |
| Variable-rate certificates which mature: | | | | | | | | | | | |
| Within one year | 123 | 0.02 | (1) | 124 | 0.03 | (22) | 146 | 0.05 | | 2 | |
| Within three years | 124 | 0.02 | (4) | 128 | 0.03 | (8) | 136 | 0.04 | | (3) | |
| Total | \$560,151 | 100.00% | \$ 137,258 | \$422,893 | 100.00% | \$ 110,938 | \$311,955 | 100.00% | | \$ 19,698 | |

(1) At June 30, 2011, 2010 and 2009, certificates in excess of \$100,000 totaled \$132.6 million, \$85.5 million and \$62.7 million, respectively.

The following table sets forth the deposit activities of the Bank for the periods indicated.

| | 2011 | At June 30, 2010 (In thousands) | 2009 |
|---------------------------------------|------------|---------------------------------------|------------|
| Beginning Balance | \$ 422,893 | \$ 311,955 | \$ 292,257 |
| Net increase before interest credited | 129,772 | 104,088 | 13,700 |
| Interest credited | 7,486 | 6,850 | 5,998 |
| Net increase in deposits | 137,258 | 110,938 | 19,698 |
| Ending balance | \$ 560,151 | \$ 422,893 | \$ 311,955 |

In the unlikely event the Bank is liquidated, depositors will be entitled to payment of their deposit accounts prior to any payment being made to the Company as the sole stockholder of the Bank.

Borrowings. As a member of the FHLB of Des Moines, the Bank has the ability to apply for FHLB advances. These advances are available under various credit programs, each of which has its own maturity, interest rate and repricing characteristics. Additionally, FHLB advances have prepayment penalties as well as limitations on size or term. In order to utilize FHLB advances, the Bank must be a member of the FHLB system, have sufficient collateral to secure the requested advance and own stock in the FHLB equal to 4.45% of the amount borrowed. See "REGULATION – The Bank -- Federal Home Loan Bank System."

Although deposits are the Bank's primary and preferred source of funds, the Bank actively uses FHLB advances. The Bank's general policy has been to utilize borrowings to meet short-term liquidity needs, or to provide a longer-term source of funding loan growth when other cheaper funding sources are unavailable or to aide in asset/liability management. As of June 30, 2011, the Bank had \$33.5 million in FHLB advances, of which \$24.5 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years, \$9.0 million in borrowings, all of which had fixed rates and original maturities of five to seven years, and no short-term borrowings. An additional \$7.1 million in credit from the FHLB had been utilized, at June 30, 2011, through the issuance of letters of credit to secure public unit deposits. In order for the Bank to borrow from the FHLB, it has pledged \$218.2 million of its residential and commercial real estate loans to the FHLB million (although the actual collateral required for advances taken and letters of credit issued amounts to \$59.5 million) and has purchased \$2.3 million in FHLB stock. At June 30, 2011, the Bank had additional borrowing capacity on its pledged residential and commercial real estate loans from the FHLB of \$108.3 million, as compared to \$103.3 million at June 30, 2010.

Additionally, the Bank is approved to borrow from the FRB's discount window on a primary credit basis. Primary credit is available to approved institutions on a generally short-term basis at the "discount rate" set by the FOMC. The bank has pledged agricultural real estate and other loans to farmers as collateral for any amounts borrowed through the discount window. As of June 30, 2011, the Bank was approved to borrow up to \$59.2 million through the discount window, but no balance was outstanding.

Also classified as borrowings are the Bank's securities sold under agreements to repurchase ("repurchase agreements"). These agreements are typically entered into with local public units or corporations. Generally, the Bank pays interest on these agreements at a rate similar to those available on repurchase agreements with wholesale funding sources, but in the current rate environment the Bank is paying a rate slightly higher than the market for such funding. The Bank views repurchase agreements with local entities as a stable funding source, and collateral requirements relating to public units are somewhat easier to manage using repurchase agreements. At June 30, 2011, the Bank had outstanding

\$25.2 million in repurchase agreements, as compared to \$30.4 million at June 30, 2010.

Southern Missouri Statutory Trust I, a Delaware business trust subsidiary of the Company, issued \$7.0 million in Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of \$1,000 per share in March, 2004. The securities are due in 30 years, were redeemable after five years and bear interest at a floating rate based on LIBOR. At June 30, 2011, the current rate was 3.00%. The securities represent undivided beneficial interests in the trust, which was established by Southern Missouri Bancorp for the purpose of issuing the

securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Southern Missouri Statutory Trust I used the proceeds of the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures of Southern Missouri Bancorp. Southern Missouri Bancorp is using the net proceeds for working capital and investment in its subsidiaries. Trust Preferred Securities qualify as Tier I Capital for regulatory purposes. See "Regulation" for further discussion on the treatment of the trust-preferred securities.

The following table sets forth certain information regarding short-term borrowings by the Bank at the end of and during the periods indicated:

| | 2011 | Year Ended June 30, | | |
|------------------------------------------------|----------|------------------------|----------|---|
| | | 2010 | 2009 | |
| | | (Dollars in thousands) | | |
| Year end balances | | | | |
| Short-term FHLB advances | \$--- | \$--- | \$6,250 | |
| Securities sold under agreements to repurchase | 25,230 | 30,369 | 23,748 | |
| Total short-term borrowings | \$25,230 | \$30,369 | \$29,998 | |
| Weighted average rate at year end | 0.86 | % 0.85 | % 0.73 | % |

The following table sets forth certain information as to the Bank's borrowings for the periods indicated:

| | 2011 | Year Ended June 30, | | |
|------------------------------------------------|----------|------------------------|----------|---|
| | | 2010 | 2009 | |
| | | (Dollars in thousands) | | |
| FHLB advances | | | | |
| Daily average balance | \$37,114 | \$57,399 | \$77,923 | |
| Weighted average interest rate | 4.19 | % 4.68 | % 4.43 | % |
| Maximum outstanding at any month end | \$43,500 | \$72,500 | \$92,675 | |
| Securities sold under agreements to repurchase | | | | |
| Daily average balance | \$29,285 | \$27,674 | \$24,345 | |
| Weighted average interest rate | 0.99 | % 0.84 | % 0.94 | % |
| Maximum outstanding at any month end | \$34,917 | \$31,230 | \$27,819 | |
| Subordinated Debt | | | | |
| Daily average balance | \$7,217 | \$7,217 | \$7,217 | |
| Weighted average interest rate | 3.14 | % 3.15 | % 4.95 | % |
| Maximum outstanding at month end | \$7,217 | \$7,217 | \$7,217 | |

Subsidiary Activities

The Bank has one subsidiary, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2011 and is currently inactive. The activities of the subsidiary are not significant to the financial condition or results of the Bank's operations.

REGULATION

Recently Enacted Regulatory Reform

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. In addition, the new law changes the jurisdictions of existing bank regulatory agencies, but does not change the banking regulatory agencies with jurisdiction over the Company and the Bank. The new law also establishes an independent federal consumer protection bureau within the FRB. The following discussion summarizes significant aspects of the new law that may affect the Bank and the Company. Regulations implementing many of these changes have not been promulgated, so we cannot determine the full impact on our business and operations at this time.

The following aspects of the Dodd-Frank Act are related to the operations of the Bank:

- A new independent Consumer Financial Protection Bureau (CFPB) will be established within the Federal Reserve, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Financial institutions with assets of less than \$10 billion, like the Bank, will be subject to supervision and enforcement by their primary federal banking regulator with respect to federal consumer financial protection laws.
- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.
 - The current prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.
- Deposit insurance is permanently increased to \$250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts is extended through December 31, 2013.
- The deposit insurance assessment base will be the depository institution's total average assets minus the sum of its average tangible equity during the assessment period.
- The minimum reserve ratio of the Deposit Insurance Fund increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the Federal Deposit Insurance Corporation is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than \$10 billion.

The following aspects of the financial reform and consumer protection act are related to the operations of the Company:

- Tier 1 capital treatment for "hybrid" capital items like trust preferred securities (TPS), but not TARP instruments, is eliminated, but TPS issued before May 21, 2010 by a bank holding company with assets of less than \$15 billion as of December 31, 2009 will continue to be eligible as Tier 1 capital. Under the Dodd-Frank Act, the federal banking agencies must promulgate new rules on regulatory capital within 18 months from July 21, 2010, for both depository institutions and their holding companies, to include leverage capital and risk-based capital measures at least as stringent as those now applicable to the Bank under the prompt corrective action regulations.
- Public companies will be required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years.

- A separate, non-binding shareholder vote will be required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.
- Securities exchanges will be required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

- Stock exchanges, not including the OTC Bulletin Board, will be prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.
- Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.
- Item 402 of Regulation S-K will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.
- Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

The Bank

General. As a state-chartered, federally-insured trust company with banking powers, the Bank is subject to extensive regulation. Lending activities and other investments must comply with various statutory and regulatory requirements, including prescribed minimum capital standards. The Bank is regularly examined by the FRB and the Missouri Division of Finance and files periodic reports concerning the Bank's activities and financial condition with its regulators. The Bank's relationship with depositors and borrowers also is regulated to a great extent by both federal law and the laws of Missouri, especially in such matters as the ownership of savings accounts and the form and content of mortgage documents.

Federal and state banking laws and regulations govern all areas of the operation of the Bank, including reserves, loans, mortgages, capital, issuance of securities, payment of dividends and establishment of branches. Federal and state bank regulatory agencies also have the general authority to limit the dividends paid by insured banks and bank holding companies if such payments should be deemed to constitute an unsafe and unsound practice. The respective primary federal regulators of the Company and the Bank have authority to impose penalties, initiate civil and administrative actions and take other steps intended to prevent banks from engaging in unsafe or unsound practices.

State Regulation and Supervision. As a state-chartered trust company with banking powers, the Bank is subject to applicable provisions of Missouri law and the regulations of the Missouri Division of Finance adopted thereunder. Missouri law and regulations govern the Bank's ability to take deposits and pay interest thereon, to make loans on or invest in residential and other real estate, to make consumer loans, to invest in securities, to offer various banking services to its customers, and to establish branch offices.

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (checking, NOW and Super NOW checking accounts). At June 30, 2011, the Bank was in compliance with these reserve requirements.

The Bank is authorized to borrow from the Federal Reserve Bank "discount window," but has not pledged any collateral in order to do so. Additionally, FRB regulations require associations to exhaust other reasonable alternative sources of funds, including FHLB borrowings, before borrowing from the FRB.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. See Business - Deposit Activities and Other Sources of Funds - Borrowings.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Des Moines. At June 30, 2011, the Bank had \$2.4 million in FHLB stock, which was in compliance with this requirement. The Bank received \$74,000 and \$83,000 in dividends from the FHLB of Des Moines for the years ended June 30, 2011 and 2010, respectively.

The FHLBs have continued and continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The general insurance limit is \$250,000. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against a member bank of the Federal Reserve system after giving the FRB an opportunity to take such action.

As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are assessed on an institution's total assets minus its tangible equity (defined as Tier 1 capital) instead of its deposits. Under these rules, an institution with total assets of less than \$10 billion is assigned to a Risk Category, and a range of initial base assessment rates applies to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates range from 2.5 to 9 basis points for Risk Category I, 9 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FDIC-insured institution. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

As a result of a decline in the reserve ratio (the ratio of the net worth of the Deposit Insurance Fund to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the Deposit Insurance Fund, the Federal Deposit Insurance Corporation adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments are measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of 3 basis points effective January 1, 2011, and are based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash, or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 13, 2013, as applicable. Collection of the prepayment does not preclude the Federal Deposit Insurance Corporation from changing assessment rates or revising the risk-based assessment system in the future. The balance of Southern Bank's prepaid assessment at June 30, 2011 was \$1.1 million.

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than \$10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio,

known as the designated reserve ratio or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

Under the Dodd-Frank Act, noninterest-bearing transaction accounts (but not NOW or IOLTA accounts) will have unlimited deposit insurance coverage from December 30, 2010 through December 31, 2012; during this period, no program fees are currently expected.

A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the fourth quarter of fiscal 2011 was 1.00 basis points (annualized) of assessable deposits. The Financing Corporation was chartered in 1987 solely for the purpose of functioning as a vehicle for the recapitalization of the Federal Savings and Loan Insurance Corporation.

Prompt Corrective Action. Under the Federal Deposit Insurance Act ("FDIA"), each federal banking agency is required to implement a system of prompt corrective action for institutions that it regulates. The federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action. Under the regulations, an institution shall be deemed to be (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier I risk-based capital ratio of 6.0% or more, has a leverage ratio of 5.0% or more and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, has a Tier I risk-based capital ratio of 4.0% or more, has a leverage ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized;" (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, has a Tier I risk-based capital ratio that is less than 4.0% or has a leverage ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, has a Tier I risk-based capital ratio that is less than 3.0% or has a leverage ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

A federal banking agency may, after notice and an opportunity for a hearing, reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or has received in its most recent examination, and has not corrected, a less than satisfactory rating for asset quality, management, earnings or liquidity. (The FRB may not, however, reclassify a significantly undercapitalized institution as critically undercapitalized.)

An institution generally must file a written capital restoration plan that meets specified requirements, as well as a performance guaranty by each company that controls the institution, with the appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. Immediately upon becoming undercapitalized, an institution shall become subject to various mandatory and discretionary restrictions on its operations.

At June 30, 2011, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FDIC.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the FRB determines that the Bank fails to meet any standard

prescribed by the Guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard.

The American Recovery and Reinvestment Act of 2010. On February 17, 2010, President Obama signed The American Recovery and Reinvestment Act of 2010 ("ARRA") into law. The ARRA is intended to revive the US economy by creating millions of new jobs and stemming home foreclosures. For financial institutions that have received or will receive financial assistance under TARP or related programs, the ARRA significantly rewrites the original executive compensation and corporate governance provisions of Section 111 of the EESA. Among the most

important changes instituted by the ARRA are new limits on the ability of TARP recipients to pay incentive compensation to up to 20 of the next most highly-compensated employees in addition to the "senior executive officers," a restriction on termination of employment payments to senior executive officers and the five next most highly-compensated employees and a requirement that TARP recipients implement "say on pay" shareholder votes. As a TARP recipient, the Company has taken the appropriate steps to comply with the foregoing restrictions and requirements, including a "say on pay" proposal in this year's proxy statement.

In February 2010, the Administration also announced its Financial Stability Plan and Homeowners Affordability and Stability Plan ("HASP"). The Financial Stability Plan is the second phase of TARP, to be administered by the Treasury. Its four key elements include:

- the development of a public/private investment fund essentially structured as a government sponsored enterprise with the mission to purchase troubled assets from banks with an initial capitalization from government funds;
- the Capital Assistance Program under which the Treasury will purchase additional preferred stock available only for banks that have undergone a new stress test given by their regulator;
- an expansion of the Federal Reserve's term asset-backed liquidity facility to support the purchase of up to \$1 trillion in AAA-rated asset backed securities backed by consumer, student, and small business loans, and possible other types of loans; and
- the establishment of a mortgage loan modification program with \$50 billion in federal funds further detailed in the HASP.

The HASP is a program aimed to help seven to nine million families restructure their mortgages to avoid foreclosure. The plan also develops guidance for loan modifications nationwide. HASP provides programs and funding for eligible refinancing of loans owned or guaranteed by Fannie Mae or Freddie Mac, along with incentives to lenders, mortgage servicers, and borrowers to modify mortgages of "responsible" homeowners who are at risk of defaulting on their mortgage. The goals of HASP are to assist in the prevention of home foreclosures and to help stabilize falling home prices. See the Company's Annual Report to Shareholders, included as Exhibit 13 for a discussion of the company's participation in the TARP Capital Purchase Program.

Initiatives Prompted by the Subprime Mortgage Crisis. In response to the recent subprime mortgage crisis, federal and state regulatory agencies have focused attention on subprime and nontraditional mortgage products both with an aim toward enhancing the regulation of such loans and providing relief to adversely affected borrowers.

Guidance on Subprime Mortgage Lending. On July 10, 2007, the federal banking agencies issued guidance on subprime mortgage lending to address issues related to certain mortgage products marketed to subprime borrowers, particularly adjustable rate mortgage products that can involve "payment shock" and other risky characteristics. Although the guidance focuses on subprime borrowers, the banking agencies note that institutions should look to the principles contained in the guidance when offering such adjustable rate mortgages to non-subprime borrowers. The guidance prohibits predatory lending programs; provides that institutions should underwrite a mortgage loan on the borrower's ability to repay the debt by its final maturity at the fully-indexed rate, assuming a fully amortizing repayment schedule; encourages reasonable workout arrangements with borrowers who are in default; mandates clear and balanced advertisements and other communications; encourages arrangements for the escrowing of real estate taxes and insurance; and states that institutions should develop strong control and monitoring systems. The guidance recommends that institutions refer to the Real Estate Lending Standards (discussed above) which provide underwriting standards for all real estate loans.

The federal banking agencies announced their intention to carefully review the risk management and consumer compliance processes, policies and procedures of their supervised financial institutions and their intention to take action against institutions that engage in predatory lending practices, violate consumer protection laws or fair lending laws, engage in unfair or deceptive acts or practices, or otherwise engage in unsafe or unsound lending practices.

Guidance on Loss Mitigation Strategies for Servicers of Residential Mortgages. On September 4, 2007, the federal banking agencies issued a statement encouraging regulated institutions and state-supervised entities that

service residential mortgages to pursue strategies to mitigate losses while preserving homeownership to the extent possible and appropriate. The guidance recognizes that many mortgage loans, including subprime loans, have been transferred into securitization trusts and servicing for such loans is governed by contract documents. The guidance advises servicers to review governing documentation to determine the full extent of their authority to restructure loans that are delinquent or are in default or are in imminent risk of default.

The guidance encourages loan servicers to take proactive steps to preserve homeownership in situations where there are heightened risks to homeowners losing their homes to foreclosures. Such steps may include loan modification; deferral of payments; extensions of loan maturities; conversion of adjustable rate mortgages into fixed rate or fully indexed, fully amortizing adjustable rate mortgages; capitalization of delinquent amounts; or any combination of these actions. Servicers are instructed to consider the borrower's ability to repay the modified obligation to final maturity according to its terms, taking into account the borrower's total monthly housing-related payments as a percentage of the borrower's gross monthly income, the borrower's other obligations, and any additional tax liabilities that may result from loan modifications. Where appropriate, servicers are encouraged to refer borrowers to qualified non-profit and other homeownership counseling services and/or to government programs that are able to work with all parties and avoid unnecessary foreclosures. The guidance states that servicers are expected to treat consumers fairly and to adhere to all applicable legal requirements.

Relief for Homeowners. In October 2007, the Treasury helped to facilitate the creation of the HOPE NOW Alliance, a private sector coalition formed to encourage mortgage servicers, mortgage counselors, government officials and non-profit groups to coordinate their efforts to help struggling borrowers restructure their mortgage payments and stay in their homes. HOPE NOW is aimed at coordinating and improving outreach to borrowers, developing best practices for mortgage counselors across the country and ensuring that groups able to help homeowners work out new loan arrangements with lenders have adequate resources to carry out this mission. Treasury has worked with other agencies and HOPE NOW to create a stream-lined loan modification program. In October 2003, HUD implemented Hope for Homeowners, a voluntary FHA program for refinancing affordable home mortgages.

Housing and Economic Recovery Act of 2008. The Housing and Economic Recovery Act of 2008, signed by President Bush on July 30, 2008, was designed to address a variety of issues relating to the subprime mortgage crises. This act established a new maximum conforming loan limit for Fannie Mae and Freddie Mac in high cost areas to 150% of the conforming loan limit of \$417,000 to take effect after December 31, 2008. The FHA's maximum conforming loan limit has been increased from 95% to 110% of the area median home price up to 150% of the Fannie Mae/Freddie Mac conforming loan limit, to take effect at the same time. Among other things, the Housing and Economic Recovery Act of 2008 enhanced the regulation of Fannie Mae, Freddie Mac and Federal Housing Administration loans; established a new Federal Housing Finance Agency to replace the prior Federal Housing Finance Board and Office of Federal Housing Enterprise Oversight; will require enhanced mortgage disclosures; and will require a comprehensive licensing, supervisory, and tracking system for mortgage originators. Using its new powers, on September 7, 2008 the Federal Housing Finance Agency announced that it had put Fannie Mae and Freddie Mac under conservatorship. The Housing and Economic Recovery Act of 2008 also establishes the HOPE for Homeowners program, which is a new, temporary, voluntary program to back Federal Housing Administration-insured mortgages to distressed borrowers. The new mortgages offered by Federal Housing Administration-approved lenders will refinance distressed loans at a significant discount for owner-occupants at risk of losing their homes to foreclosure.

New Regulations Establishing Protections for Consumers in the Residential Mortgage Market. The Federal Reserve Board has issued new regulations under the federal Truth-in-Lending Act and the Home Ownership and Equity Protection Act. For mortgage loans governed by the Home Ownership and Equity Protection Act, the new regulations further restrict prepayment penalties, and enhance the standards relating to the consumer's ability to repay. For a new category of closed-end "higher-priced" mortgage loans, the new regulations restrict prepayment penalties, and require

escrows for property taxes and property-related insurance for most first lien mortgage loans. For all closed-end loans secured by a principal dwelling, the new regulations prohibit the coercion of appraisers; require the prompt crediting of payments; prohibit the pyramiding of late fees; require prompt responses to requests for pay-off figures; and require the delivery of transaction-specific Truth-in-Lending Act disclosures are to be provided within three business days following the receipt of an application for a closed-end home loan. The new regulations also impose new restrictions on mortgage loan advertising for both open-end and closed-end products. In general, the new regulations are effective October 1, 2010, but the rules governing escrows for higher-priced

mortgages are effective on April 1, 2011, and for higher-priced mortgage loans secured by manufactured housing, on October 1, 2011. The Dodd-Frank Act requires the CFPB to establish an array of new rules protecting consumers in connection with residential mortgage loans and other loans.

Pending Legislation and Regulatory Proposals. As a result of the credit crisis and current financial conditions, federal and state legislators and agencies are considering a broad variety of legislative and regulatory proposals covering lending and related matters, risk management practices, supervision and consumer protection. It is unclear which, if any, of these initiatives will be adopted, what effect they will have on the Company or the Bank and whether any of these initiatives will change the competitive landscape in the banking industry.

Guidance on Nontraditional Mortgage Product Risks. On September 29, 2006, the federal banking agencies issued guidance to address the risks posed by nontraditional residential mortgage products, that is, mortgage products that allow borrowers to defer repayment of principal or interest. The guidance instructs institutions to ensure that loan terms and underwriting standards are consistent with prudent lending practices, including consideration of a borrower's ability to repay the debt by final maturity at the fully indexed rate and assuming a fully amortizing repayment schedule; requires institutions to recognize, for higher risk loans, the necessity of verifying the borrower's income, assets and liabilities; requires institutions to address the risks associated with simultaneous second-lien loans, introductory interest rates, lending to subprime borrowers, non-owner-occupied investor loans, and reduced documentation loans; requires institutions to recognize that nontraditional mortgages, particularly those with risk-layering features, are untested in a stressed environment; requires institutions to recognize that nontraditional mortgage products warrant strong controls and risk management standards, capital levels commensurate with that risk, and allowances for loan and lease losses that reflect the collectibility of the portfolio; and ensure that consumers have sufficient information to clearly understand loan terms and associated risks prior to making product and payment choices. The guidance recommends practices for addressing the risks raised by nontraditional mortgages, including enhanced communications with consumers, beginning when the consumer is first shopping for a mortgage; promotional materials and other product descriptions that provide information about the costs, terms, features and risks of nontraditional mortgages, including with respect to payment shock, negative amortization, prepayment penalties, and the cost of reduced documentation loans; more informative monthly statements for payment option adjustable rate mortgages; and specified practices to avoid. Subsequently, the federal banking agencies produced model disclosures that are designed to provide information about the costs, terms, features and risks of nontraditional mortgages.

Guidance on Real Estate Concentrations. On December 6, 2006, the federal banking agencies issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is not to limit a bank's commercial real estate lending but to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The FDIC and other bank regulatory agencies will be focusing their supervisory resources on institutions that may have significant commercial real estate loan concentration risk. A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk.

Capital Requirements. The FRB's minimum capital standards applicable to FRB-regulated banks and savings banks require the most highly-rated institutions to meet a "Tier 1" leverage capital ratio of at least 3% of total assets. Tier 1 (or "core capital") consists of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries minus all intangible assets other than limited amounts of purchased mortgage servicing rights and certain other accounting adjustments. All other banks must have a Tier 1 leverage ratio of at least

100-200 basis points above the 3% minimum. The FRB capital regulations establish a minimum leverage ratio of not less than 4% for banks that are not the most highly rated or are anticipating or experiencing significant growth.

The FRB's capital regulations require higher capital levels for banks which exhibit more than a moderate degree of risk or exhibit other characteristics which necessitate that higher than minimum levels of capital be maintained. Any insured bank with a Tier 1 capital to total assets ratio of less than 2% is deemed to be operating in

an unsafe and unsound condition pursuant to Section 8(a) of the FDIA unless the insured bank enters into a written agreement, to which the FRB is a party, to correct its capital deficiency. Insured banks operating with Tier 1 capital levels below 2% (and which have not entered into a written agreement) are subject to an insurance removal action. Insured banks operating with lower than the prescribed minimum capital levels generally will not receive approval of applications submitted to the FRB. Also, inadequately capitalized state nonmember banks will be subject to such administrative action as the FRB deems necessary.

FRB regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of total capital (which is defined as Tier 1 capital and Tier 2 or supplementary capital) to risk weighted assets of 8% and Tier 1 capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FRB believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage requirement. The components of supplementary capital currently include cumulative perpetual preferred stock, adjustable-rate perpetual preferred stock, mandatory convertible securities, term subordinated debt, intermediate-term preferred stock and allowance for possible loan and lease losses. Allowance for possible loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of Tier 1 capital. The FRB includes in its evaluation of a bank's capital adequacy an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates. However, no measurement framework for assessing the level of a bank's interest rate risk exposure has been codified.

An undercapitalized, significantly undercapitalized, or critically undercapitalized institution is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. The plan must specify (i) the steps the institution will take to become adequately capitalized, (ii) the capital levels to be attained each year, (iii) how the institution will comply with any regulatory sanctions then in effect against the institution and (iv) the types and levels of activities in which the institution will engage. The banking agency may not accept a capital restoration plan unless the agency determines, among other things, that the plan "is based on realistic assumptions, and is likely to succeed in restoring the institution's capital" and "would not appreciably increase the risk...to which the institution is exposed."

The FDIA provides that the appropriate federal regulatory agency must require an insured depository institution that is significantly undercapitalized or is undercapitalized and either fails to submit an acceptable capital restoration plan within the time period allowed or fails in any material respect to implement a capital restoration plan accepted by the appropriate federal banking agency to take one or more of the following actions: (i) sell enough shares, including voting shares, to become adequately capitalized; (ii) merge with (or be sold to) another institution (or holding company), but only if grounds exist for appointing a conservator or receiver; (iii) restrict certain transactions with banking affiliates as if the "sister bank" requirements of Section 23A of the Federal Reserve Act ("FRA") did not exist; (iv) otherwise restrict transactions with bank or non-bank affiliates; (v) restrict interest rates that the institution pays on deposits to "prevailing rates" in the institution's region; (vi) restrict asset growth or reduce total assets; (vii) alter, reduce or terminate activities; (viii) hold a new election of directors; (ix) dismiss any director or senior executive officer who held office for more than 180 days immediately before the institution became undercapitalized; (x) employ "qualified" senior executive officers; (xi) cease accepting deposits from correspondent depository institutions; (xii) divest certain non-depository affiliates which pose a danger to the institution; (xiii) be divested by a parent holding company; and (xiv) take any other action which the agency determines would better carry out the purposes of the Prompt Corrective Action provisions. See "-- Prompt Corrective Action."

The FRB has adopted the Federal Financial Institutions Examination Council's recommendation regarding the adoption of ASC Topic 320, formerly Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Specifically, the agencies determined that net unrealized holding gains or losses on available for sale debt and equity securities should not be included when calculating core

and risk-based capital ratios.

FRB capital requirements are designated as the minimum acceptable standards for banks whose overall financial condition is fundamentally sound, which are well-managed and have no material or significant financial weaknesses. The FRB capital regulations state that, where the FRB determines that the financial history or condition, including off-balance sheet risk, managerial resources and/or the future earnings prospects of a bank are not adequate and/or a bank has a significant volume of assets classified substandard, doubtful or loss or otherwise criticized, the

FRB may determine that the minimum adequate amount of capital for that bank is greater than the minimum standards established in the regulation.

The Bank's management believes that, under the current regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Bank, such as a downturn in the economy in areas where the Bank has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its capital requirements.

For a discussion of the Bank's capital position relative to its FRB Capital requirements at June 30, 2011, see Note 13 of the Notes to the Consolidated Financial Statements in the annual report to stockholders included in Exhibit 13 and hereby incorporated by reference.

Activities and Investments of Insured State-Chartered Banks. The FDIA generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, and (iv) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Subject to certain regulatory exceptions, FDIC regulations provide that an insured state-chartered bank may not, directly, or indirectly through a subsidiary, engage as "principal" in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements. Any insured state-chartered bank directly or indirectly engaged in any activity that is not permitted for a national bank or for which the FDIC has granted an exception must cease the impermissible activity.

Affiliate Transactions. The Company and the Bank are legal entities separate and distinct. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company (an "affiliate"), generally limiting such transactions with the affiliate to 10% of the bank's capital and surplus and limiting all such transactions to 20% of the bank's capital and surplus. Such transactions, including extensions of credit, sales of securities or assets and provision of services, also must be on terms and conditions consistent with safe and sound banking practices, including credit standards, that are substantially the same or at least as favorable to the bank as those prevailing at the time for transactions with unaffiliated companies.

Federally insured banks are subject, with certain exceptions, to certain restrictions (including collateralization) on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, such banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

Community Reinvestment Act. Banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"), which requires the appropriate federal bank regulatory agency, in connection with its regular examination of a bank, to assess the bank's record in meeting the credit needs of the community serviced by the bank, including low and moderate income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the

public. Further, such assessment is required of any bank which has applied, among other things, to establish a new branch office that will accept deposits, relocate an existing office or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. The Bank received a "satisfactory" rating during its most recent CRA examination.

Dividends. Dividends from the Bank constitute the major source of funds for dividends that may be paid by the Company. The amount of dividends payable by the Bank to the Company depends upon the Bank's earnings and capital position, and is limited by federal and state laws, regulations and policies.

The amount of dividends actually paid during any one period will be strongly affected by the Bank's management policy of maintaining a strong capital position. Federal law further provides that no insured depository institution may make any capital distribution (which would include a cash dividend) if, after making the distribution, the institution would be "undercapitalized," as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks if such payments should be deemed to constitute an unsafe and unsound practice.

The Company

Federal Securities Law. The stock of the Company is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As such, the Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

The Company's stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. If the Company meets specified current public information requirements, each affiliate of the Company is able to sell in the public market, without registration, a limited number of shares in any three-month period.

The SEC has adopted rules under which, if certain conditions are met, the holders of 3% of voting shares of the Company who have held their shares for three years may require the Company to include their nominees for board seats in proxy materials distributed by the Company. "Smaller reporting companies", like the Company, will be subject to these new rules after a three-year phase-in period.

Bank Holding Company Regulation. Bank holding companies are subject to comprehensive regulation by the FRB under the BHCA. As a bank holding company, the Company is required to file reports with the FRB and such additional information as the FRB may require, and the Company and its non-banking affiliates will be subject to examination by the FRB. Under FRB policy, a bank holding company must serve as a source of financial strength for its subsidiary banks. Under this policy the FRB may require, and has required in the past, a holding company to contribute additional capital to an undercapitalized subsidiary bank. Under the Dodd-Frank Act, this policy is codified and rules to implement it will be established. Under the BHCA, a bank holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

The Company is subject to the activity limitations imposed on bank holding companies. The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the FRB includes, among other things, operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and United States Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers. The scope of permissible activities may be expanded from time to time by the FRB. Such activities may also be affected by federal legislation.

TAXATION

Federal Taxation

General. The Company and the Bank report their income on a fiscal year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Bad Debt Reserve. Historically, savings institutions, such as the Bank used to be, which met certain definitional tests primarily related to their assets and the nature of their business ("qualifying thrift"), were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Bank's deductions with respect to their loans, which are generally loans secured by certain interests in real property, historically has been computed using an amount based on the Bank's actual loss experience, in accordance with IRC Section 585(B)(2). Due to the Bank's loss experience, the Bank generally recognized a bad debt deduction equal to their net charge-offs.

The Bank's average assets for the current year exceeded \$500 million, thus classifying it as a large bank for purposes of IRC Section 585. Under IRC Section 585(c)(3), a bank that becomes a large bank must change its method of accounting from the reserve method to a specific charge-off method under IRC Section 166. The Bank's deductions with respect to their loans are computed under the specific charge-off method. The specific charge-off method will be used in the current year and all subsequent tax years.

Distributions. To the extent that the Bank makes "nondividend distributions" to the Company, such distributions will be considered to result in distributions from the balance of its bad debt reserve as of December 31, 1987 (or a lesser amount if the Bank's loan portfolio decreased since December 31, 1987) and then from the supplemental reserve for losses on loans ("Excess Distributions"), and an amount based on the Excess Distributions will be included in the Bank's taxable income. Nondividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. The amount of additional taxable income created from an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "nondividend distribution," then approximately one and one-half times the Excess Distribution would be includable in gross income for federal income tax purposes, assuming a 34% corporate income tax rate (exclusive of state and local taxes). See "REGULATION" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

Corporate Alternative Minimum Tax. The Internal Revenue Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. In addition, only 90% of AMTI can be offset by net operating loss carry-overs. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses).

Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

Missouri Taxation

General. Missouri-based banks, such as the Bank, are subject to a Missouri bank franchise and income tax.

Bank Franchise Tax. The Missouri bank franchise tax is imposed on (i) the bank's taxable income at the rate of 7%, less credits for certain Missouri taxes, including income taxes. However, the credits excludes taxes paid for real estate, unemployment taxes, bank tax, and taxes on tangible personal property owned by the Bank and held for lease or rentals to others - income-based calculation; and (ii) the bank's net assets at a rate of .033%. Net assets

are defined as total assets less deposits and the investment in greater than 50% owned subsidiaries - asset-based calculation.

Income Tax. The Bank and its holding company and related subsidiaries are subject to an income tax that is imposed on the consolidated taxable income apportioned to Missouri at the rate of 6.25%. The return is filed on a consolidated basis by all members of the consolidated group including the Bank.

Arkansas Taxation

General. Due to its loan activity and the acquisition of an Arkansas bank in the previous and current year, the Bank is subject to an Arkansas income tax. The tax is imposed on the Bank's apportioned taxable income at a rate of 6%.

Audits

There have been no IRS audits of the Company's Federal income tax returns or audits of the Bank's state income tax returns during the past five years.

For additional information regarding taxation, see Note 10 of Notes to Consolidated Financial Statements contained in the Annual Report.

PERSONNEL

As of June 30, 2011, the Company had 146 full-time employees and 28 part-time employees. The Company believes that employees play a vital role in the success of a service company and that the Company's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

INTERNET WEBSITE

We maintain a website with the address of www.bankwithsouthern.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. This Annual Report on Form 10-K and our other reports, proxy statements and other information, including earnings press releases, filed with the SEC are available on that website through a link to the SEC's website at "Resource Center - Investor Relations - SEC Filings." For more information regarding access to these filings on our website, please contact our Corporate Secretary, Southern Missouri Bancorp, Inc., 531 Vine Street, Poplar Bluff, Missouri, 63901; telephone number (573) 778-1800.

Item 1A. Risk Factors

Our allowance for loan losses may prove to be insufficient to absorb probable losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
 - the credit history of a particular borrower;
 - changes in economic and industry conditions; and
 - the duration of the loan.

We maintain an allowance for loan losses which we believe is appropriate to provide for potential losses in our loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- an ongoing review of the quality, size and diversity of the loan portfolio;
 - evaluation of non-performing loans;
 - historical default and loss experience;
 - historical recovery experience;
 - existing economic conditions;
 - risk characteristics of the various classifications of loans; and
- the amount and quality of collateral, including guarantees, securing the loans.

If our loan losses exceed our allowance for probable loan losses, our business, financial condition and profitability may suffer.

If our nonperforming assets increase, our earnings will be adversely affected.

At June 30, 2011 and June 30, 2010, our nonperforming assets were \$2.4 million and \$2.0 million, respectively, or 0.35% and 0.37% of total assets, respectively. Our nonperforming assets adversely affect our net income in various ways:

- We do not record interest income on nonaccrual loans, nonperforming investment securities, or other real estate owned.
 - We must provide for probable loan losses through a current period charge to the provision for loan losses.

- Non-interest expense increases when we must write down the value of properties in our other real estate owned portfolio to reflect changing market values or recognize other-than-temporary impairment on nonperforming investment securities.
- There are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our other real estate owned.
- The resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.

Changes in economic conditions, particularly a further economic slowdown in southeast or southwest Missouri or northeast or north central Arkansas, could hurt our business.

Our business is directly affected by market conditions, trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. In 2008, the housing and real estate sectors experienced an economic slowdown that has continued. Further deterioration in economic conditions, particularly within our primary market area in southeast and southwest Missouri and northeast Arkansas, could result in the following consequences, among others, any of which could hurt our business materially:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing our loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Downturns in the real estate markets in our primary market area could hurt our business.

Our business activities and credit exposure are primarily concentrated in southeastern and southwestern Missouri and northeastern Arkansas. While we did not and do not have a sub-prime lending program, our residential real estate, construction and land loan portfolios, our commercial and multifamily loan portfolios and certain of our other loans could be affected by the downturn in the residential real estate market. We anticipate that significant declines in the real estate markets in our primary market area would hurt our business and would mean that collateral for our loans would hold less value. As a result, our ability to recover on defaulted loans by selling the underlying real estate would be diminished, and we would be more likely to suffer losses on defaulted loans. The events and conditions described in this risk factor could therefore have a material adverse effect on our business, results of operations and financial condition.

Our construction lending exposes us to significant risk.

Our construction loan portfolio, which totaled \$29.9 million, or 5.4% of loans, net, at June 30, 2011, includes residential and non-residential construction and development loans. This type of lending is generally considered to have more complex credit risks than traditional single-family residential lending because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and sale of the related real estate project. Consequently, these loans are often more sensitive to adverse conditions in the real estate market or the general economy than other real estate loans. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be difficult to dispose of in a market decline. Additionally, we may experience significant construction loan losses because independent appraisers or project engineers inaccurately estimate the cost and value of construction loan projects.

Deterioration in our construction portfolio could result in increases in the provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Our loan portfolio possesses increased risk due to our percentage of commercial real estate and commercial business loans.

At June 30, 2011, 56.0% of our loans, net, consisted of commercial real estate and commercial business loans to small and mid-sized businesses, generally located in our primary market area, which are the types of businesses that have a heightened vulnerability to local economic conditions. Over the last several years, we have increased this type of lending from 45.2% of our portfolio at June 30, 2006, in order to improve the yield on our assets. At June 30, 2011, our loan portfolio included \$185.2 million of commercial real estate loans and \$126.3 million of commercial business loans compared to \$65.4 million and \$65.1 million, respectively, at June 30, 2006. The credit risk related to these types of loans is considered to be greater than the risk related to one- to four-family

residential loans because the repayment of commercial real estate loans and commercial business loans typically is dependent on the successful operation and income stream of the borrowers' business and the real estate securing the loans as collateral, which can be significantly affected by economic conditions. Additionally, commercial loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Commercial loans not collateralized by real estate are often secured by collateral that may depreciate over time, be difficult to appraise and fluctuate in value (such as accounts receivable, inventory and equipment). If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could require us to increase our provision for loan losses and adversely affect our operating results and financial condition.

Several of our commercial borrowers have more than one commercial real estate or business loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to any one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential property because there are fewer potential purchasers of the collateral. Since we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses due to the increased risk characteristics associated with these types of loans. Any increase to our allowance for loan losses would adversely affect our earnings. Any delinquent payments or the failure to repay these loans would hurt our earnings.

Included in the commercial real estate loans described above are agricultural real estate loans totaling \$42.4 million, or 7.6% of our loan portfolio, at June 30, 2011. Agricultural real estate lending involves a greater degree of risk and typically involves larger loans to single borrowers than lending on single-family residences. Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the farm borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. The primary crops in our market areas are cotton, rice, corn and soybean. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio. Our agricultural real estate lending has grown significantly since June 30, 2006, when these loans totaled \$5.6 million, or 2.0% of our loan portfolio.

Included in the commercial business loans described above are agricultural production and equipment loans. At June 30, 2011, these loans totaled \$45.3 million, or 8.1% , of our loan portfolio. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. Any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation to the collateral. Our agricultural operating loans have also grown significantly since June 30, 2006, when such loans totaled \$11.1 million, or 4.0% of our loan portfolio.

Lack of seasoning of our commercial real estate and commercial business loan portfolios may increase the risk of credit defaults in the future.

Due to our increasing emphasis on commercial real estate and commercial business lending, a substantial amount of the loans in our commercial real estate and commercial business portfolios and our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” A portfolio of older loans will usually behave more predictably than a newer portfolio. As a result, because a large portion of our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

Changes in interest rates may negatively affect our earnings and the value of our assets.

Our earnings and cash flows depend substantially upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond our control, including general economic conditions, competition and policies of various governmental and regulatory agencies and, in particular, the policies of the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investment securities and the amount of interest they pay on deposits and borrowings, but these changes could also affect: (i) our ability to originate loans and obtain deposits; (ii) the fair value of our financial assets and liabilities, including our securities portfolio; and (iii) the average duration of our interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rate indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk), including a prolonged flat or inverted yield curve environment. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse affect on our financial condition and results of operations.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or an adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry generally.

We have pursued a strategy of supplementing internal growth by acquiring other financial companies or their assets and liabilities that we believe will help us fulfill our strategic objectives and enhance our earnings. There are risks associated with this strategy, including the following:

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be adversely affected;
- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

- To the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. We are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition;

- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders; and
- We have completed two acquisitions within the past two years and opened additional banking offices in the past few years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. With the proceeds of the offering made by this prospectus, we anticipate that our capital resources will satisfy our capital requirements for the foreseeable future. We may at some point need to raise additional capital to support our operations or continued growth, both internally and through acquisitions. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock, or otherwise adversely affect your investment.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances of our ability to raise additional capital if needed, or if the terms will be acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and adversely affected.

Legislative or regulatory changes or actions, or significant litigation, could adversely impact us or the businesses in which we are engaged.

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds, and not to benefit our shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us or our ability to increase the value of our business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could require us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders.

Impairment of investment securities, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, whether the market decline was affected by macroeconomic conditions and whether we have the intent to sell the debt security or will be required to sell the debt security before its anticipated recovery. In fiscal 2009, we incurred charges to recognize the other-than-temporary impairment (OTTI) of available-for-sale investments related to investments in Freddie Mac preferred stock (\$304,000 impairment realized in the first quarter of fiscal 2009) and a pooled trust preferred collateralized debt obligation, Trapeza CDO IV, Ltd., class C2 (\$375,000 impairment realized in the second quarter of fiscal 2009). The Company currently holds three additional collateralized debt obligations (CDOs) which have not been deemed other-than-temporarily impaired, based on the Company's best judgment using information currently

available.

Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. As of June 30, 2011, the Company determined that none of its goodwill or other intangible assets were impaired.

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Deferred tax assets are only recognized to the extent it is more likely than not they will be realized. Should our management determine it is not more likely than not that the deferred tax assets will be realized, a valuation allowance with a charge to earnings would be reflected in the period. At June 30, 2011, the Company's net deferred tax asset was \$345,000, none of which was disallowed for regulatory capital purposes. Based on the levels of taxable income in prior years and the Company's expectation of profitability in the current year and future years, management has determined that no valuation allowance was required at June 30, 2011. If the Company is required in the future to take a valuation allowance with respect to its deferred tax asset, its financial condition, results of operations and regulatory capital levels would be negatively affected.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral that we hold cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan. We cannot assure you that any such losses would not materially and adversely affect our business, financial condition or results of operations.

Non-compliance with USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. During the last year, several banking institutions have received large fines for non-compliance with these laws and regulations. Although we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

New or changes in existing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a financial company's shareholders. These regulations may sometimes impose significant limitations on operations. The significant federal and state banking regulations that affect us are described in this report under the heading "Item 1. Business-Supervision and Regulation" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time.

Significant legal actions could subject the Company to substantial liabilities.

The Company is from time to time subject to claims related to its operations. These claims and legal actions, including supervisory actions by the Company's regulators, could involve large monetary claims and significant defense costs. As a result, the Company may be exposed to substantial liabilities, which could adversely affect the Company's results of operations and financial condition.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face substantial competition in all phases of our operations from a variety of different competitors. Our

future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have grown our business successfully by focusing on our business lines in geographic markets and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies and specialized finance companies. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and smaller newer competitors may also be more aggressive in terms of pricing loan and deposit products than we are in order to obtain a share of the market. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various services.

We are subject to security and operational risks relating to our use of technology that could damage our reputation and our business.

Security breaches in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and our business. Additionally, we outsource our data processing to a third party. If our third party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations.

The warrant we issued to the Treasury in the TARP program may be dilutive to holders of our common stock.

At the time we sold preferred stock to the Treasury in the TARP program in 2008, we also issued to Treasury a warrant for 114,326 shares of common stock, which represented approximately 5.2% of the shares of our common stock outstanding as of June 30, 2011 (including the shares issuable upon exercise of the warrant in total shares outstanding). The warrant exercise price is at \$12.53 per share as compared to our common stock price of \$21.05 as of September 14, 2011. The warrant was not repurchased in connection with the repurchase of the TARP preferred stock; however, pursuant to the TARP agreement with Treasury we are seeking to repurchase the warrant through private negotiations or in a possible future auction of the warrant by Treasury. If a third party acquires the warrant in that auction, the exercise of the warrant would dilute the ownership and voting power of our other stockholders.

Regulatory and contractual restrictions may limit or prevent us from paying dividends on and repurchasing our common stock.

Southern Missouri Bancorp, Inc. is an entity separate and distinct from its principal subsidiary, Southern Bank, and derives substantially all of its revenue in the form of dividends from that subsidiary. Accordingly, the Company is and will be dependent upon dividends from the Bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on its common and preferred stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to pay dividends on its common or preferred stock. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

Under the terms of the SBLF Preferred Stock and the securities purchase agreement between us and the Treasury in connection with the SBLF transaction our ability to pay dividends on or repurchase our common stock is subject to a limit requiring us generally not to reduce our Tier 1 capital from the level on the SBLF closing date by more than 10%. In addition, if we fail to pay an SBLF dividend, there are further restrictions on our ability to pay dividends on or repurchase our common stock. In addition, the terms of our outstanding junior subordinated debt securities prohibit us from paying dividends on or repurchasing our common stock at any time when we have elected to defer the payment of interest on such debt securities or certain events of default under the terms of those debt securities have occurred and are continuing. These restrictions, together with the potentially dilutive impact of the

warrant we issued to the U.S. Treasury described above, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce, suspend or eliminate our common stock cash dividend in the future.

If we defer payments of interest on our outstanding junior subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of June 30, 2011, we had outstanding \$7.2 million aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by a subsidiary of ours that is a statutory business trust. We have also guaranteed those trust preferred securities. The indenture under which the junior subordinated debt securities were issued, together with the guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the SBLF preferred stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture; or (ii) we are in default with respect to payment of any obligations under the guarantee; or (iii) we have elected to defer payment of interest on the junior subordinated debt securities. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities from time to time for up to five years.

Events of default under the indenture generally consist of our failure to pay interest on the junior subordinated debt securities under certain circumstances, our failure to pay any principal of or premium on such junior subordinated debt securities when due, our failure to comply with certain covenants under the indenture, and certain events of bankruptcy, insolvency or liquidation relating to us.

As a result of these provisions, if we were to elect to defer payments of interest on the junior subordinated debt securities, or if any of the other events described in clause (i) or (ii) of the first paragraph of this risk factor were to occur, we would be prohibited from declaring or paying any dividends on the SBLF preferred stock and our common stock, from redeeming, repurchasing or otherwise acquiring any of the SBLF preferred stock or our common stock, and from making any payments to holders of the SBLF preferred stock or our common stock in the event of our liquidation, which would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock or the SBLF preferred stock, we may issue additional series of junior subordinated debt securities in the future with terms similar to those of our existing junior subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

The following table sets forth certain information regarding the Bank's offices as of June 30, 2011.

| Location | Year Opened | Building Net Book Value as of June 30, 2011 (Dollars in thousands) | Land Owned/Leased | Building Owned/Leased |
|--------------------------------------------------|-------------|-----------------------------------------------------------------------|-------------------|-----------------------|
| Main Office | | | | |
| 531 Vine St. Poplar Bluff, Missouri | 1966 | \$ 957 | Owned | Owned |
| Branch Offices | | | | |
| 502 Main St. Van Buren, Missouri | 1982 | 10 | Owned | Owned |
| 1330 N. Westwood Blvd. Poplar Bluff, Missouri | 1976 | 45 | Leased | Owned |
| 4214 Highway PP Poplar Bluff, Missouri | 2001 | 471 | Owned | Owned |
| 713 Business 60 West Dexter, Missouri | 1979 | 25 | Owned | Owned |
| 301 First St. Kennett, Missouri | 2000 | 729 | Owned | Owned |
| 302 Washington St. Doniphan, Missouri | 2001 | 518 | Owned | Owned |
| 13371 Highway 53 Qulin, Missouri | 2000 | 82 | Owned | Owned |
| 1205 S. Main St. Sikeston, Missouri | 2006 | 863 | Owned | Owned |
| 100 W. Main St. Matthews, Missouri | 2008 | --- | Leased | Leased |
| 1727 W. Kingshighway Paragould, Arkansas | 2009 | 559 | Leased | Owned |
| 2775 E. Nettleton Jonesboro, Arkansas | 2009 | 310 | Owned | Owned |

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| | | | | |
|------------------------------------------------------------|------|-----|--------|--------|
| 100 N. Main Leachville, Arkansas | 2009 | 92 | Owned | Owned |
| 601 N. Holman Brookland, Arkansas | 2009 | 123 | Owned | Owned |
| 1583 S. St. Louis St Batesville, Arkansas | 2010 | --- | Leased | Leased |
| 500 E. Race Ave. Searcy, Arkansas | 2010 | --- | Leased | Leased |
| Loan Production Offices | | | | |
| 4650 South National, Suite C-4 Springfield, Missouri | 2010 | --- | Leased | Leased |
| 11324 Arcade Dr. Little Rock, Arkansas | 2011 | --- | Leased | Leased |

Item 3. Legal Proceedings

In the opinion of management, the Bank is not a party to any pending claims or lawsuits that are expected to have a material effect on the Bank's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Bank mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. Aside from such pending claims and lawsuits, which are incident to the conduct of the Bank's ordinary business, the Bank is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended June 30, 2011.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information contained in the section captioned "Common Stock" in the Annual Report is incorporated herein by reference.

Information regarding our equity compensation plans is included in Item 12 of this Form 10-K.

The following table summarizes the Company's stock repurchase activity for each month during the three months ended June 30, 2011.

| | Total # of Shares Purchased | Average Price Paid Per Share | Total # of Shares Purchased as Part of a Publicly Announced Program | Maximum Number of Shares That May Yet Be Purchased |
|--------------------------|-----------------------------------|---------------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------------|
| 06/01/11-06/30/11 period | - | - | - | - |
| 05/01/11-05/31/11 period | - | - | - | - |
| 04/01/11-04/30/11 period | - | - | - | - |

Item 6. Selected Financial Data

The information contained in the section captioned "Financial Review" in the Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Sensitivity Analysis" in the Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Report From Independent Registered Public Accounting Firm*

- (a) Consolidated Balance Sheets as of June 30, 2011 and 2010*
- (b) Consolidated Statements of Income for the Years Ended June 30, 2011, 2010 and 2009*
- (c)

Consolidated Statements of Stockholders' Equity For the Years Ended June 30,
2011, 2010 and 2009*

(d) Consolidated Statements of Cash Flows For the Years Ended June 30, 2011,
2010 and 2009*

(e) Notes to Consolidated Financial Statements*

* Contained in the Annual Report filed as an exhibit hereto and incorporated herein by reference. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A.Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2011, was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer, and several other members of our senior management. Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed in the reports the Company files or submits under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the year ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We intend to continually review and evaluate the design and effectiveness of the Company's disclosure controls and procedures and to improve the Company's controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While we believe the present design of the disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control Over Financial Reporting

The management of Southern Missouri Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of

management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control

over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, we believe that, as of June 30, 2011, the Company's internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation of our independent public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Date: September 21, 2011

By: /s/ Greg A.
Steffens
Greg A. Steffens
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Matthew T.
Funke
Matthew T. Funke
Chief Financial Officer
(Principal Financial and Accounting Officer)

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information concerning the Directors of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholder to be held October 17, 2011, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers

Information concerning the Executive Officers of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held October 17, 2011, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Audit Committee Matters and Audit Committee Financial Expert

The Board of Directors of the Company has a standing Audit/Compliance Committee, which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of that committee are Directors Love (Chairman), Smith, Bagby, Black, Schalk, Moffitt, Brooks, and Robison, all of whom are considered independent under applicable Nasdaq listing standards. The Board of Directors has determined that Mr. Love is an "audit committee financial expert" as defined in applicable SEC rules. Additional information concerning the audit committee of the Company's Board of Directors is incorporated herein by reference from the Company's definitive proxy statement for its Annual Meeting of Stockholders to be held in October 2011, except for information contained under the heading "Compensation Committee Report" and "Report of the Audit Committee", a copy of which will be filed not later than 120 days after the close of the fiscal year.

Section 16(a) Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, file with the SEC initial reports of ownership and reports of changes in ownership of the Company's Common Stock. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge no late reports occurred during the fiscal year ended June 30, 2011. All other Section 16(a) filing requirements applicable to our executive officers, directors and greater than 10% beneficial owners were complied with.

Code of Ethics

On January 20, 2005, the Company adopted a written Code of Conduct and Ethics (the "Code") based upon the standards set forth under Item 406 of the Securities Exchange Act. The Code was subsequently amended in 2011. The Code applies to all of the Company's directors, officers and employees. The Code may be reviewed at the Company's website, www.bankwithsouthern.com, by following the "investor relations" and "corporate governance" links.

Nomination Procedures

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's Board of Directors.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held October 17, 2011, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held October 17, 2011, a copy of which will be filed not later than 120 days after the close of the fiscal year.

The following table sets forth information as of June 30, 2011 with respect to compensation plans under which shares of common stock were issued.

Equity Compensation Plan Information

| Plan Category | Number of securities to be issued upon exercise of outstanding options warrants and rights | Weighted-average exercise price of outstanding options warrants and rights | Number of Securities remaining available for future issuance under equity compensation plans |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Equity Compensation Plans Approved By Security Holders | 87,500 | \$14.44 | 80,536 |
| Equity Compensation Plans Not Approved By Security Holders | --- | \$ --- | --- |
| Capital Purchase Program Implemented by the U.S. Treasury | 114,326 | \$12.53 | --- |

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held October 17, 2011, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 14. Principal Accountant Fees and Services

Information concerning fees and services by our principal accountants is incorporated herein by reference from our definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

Part II, Item 8 is hereby incorporated by reference.

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits:

| Regulation S-K Exhibit Number | Document | Reference to Prior Filing or Exhibit Number Attached Hereto |
|----------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 3(i) | Certificate of Incorporation of the Registrant | + |
| 3(ii) | Bylaws of the Registrant | + |
| 10 | Material contracts: | |
| | (a) Registrant's 1994 Stock Option Plan | * |
| | (b) Southern Missouri Savings Bank, FSB Management Recognition and Development Plans | * |
| | (c) Employment Agreements: | ** |
| | (i) Greg A. Steffens | ** |
| | (d) Director's Retirement Agreements | |
| | (i) Samuel H. Smith | *** |
| | (ii) Sammy A. Schalk | **** |
| | (iii) Ronnie D. Black | **** |
| | (iv) L. Douglas Bagby | **** |
| | (v) Rebecca McLane Brooks | ***** |
| | (vi) Charles R. Love | ***** |
| | (vii) Charles R. Moffitt | ***** |
| | (viii) Dennis C. Robison | ++ |
| | (e) Tax Sharing Agreement | *** |
| 11 | Statement Regarding Computation of Per Share Earnings | 11 |
| 13 | 2011 Annual Report to Stockholders | 13 |
| 14 | Code of Conduct and Ethics | 14 |
| 21 | Subsidiaries of the Registrant | 21 |
| 23 | Consent of Auditors | 23 |
| 31 | Rule 13a-14(a)/15d-14(a) Certifications | 31 |
| 32 | Section 1350 Certifications | 32 |
| 99 | 31 C.F.R. section 30.15 Certification of Principal Executive and Financial Officers | 99 |

* Filed as an exhibit to the Registrant's 1994 annual meeting proxy statement dated October 21, 1994.

** Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.

*** Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1995.

**** Filed as an exhibit to the registrant's Report on Form 10-QSB for the quarter ended December 31, 2000.

***** Filed as an exhibit to the registrant's Report on Form 10-QSB for the quarter ended December 31, 2004.

+ Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 1999.

++ Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008.

Charles R. Love
Director

By: /s/ Charles R. September 21, 2011
Moffitt
Charles R. Moffitt
Director

By: /s/ Dennis C. September 21, 2011
Robison
Dennis C. Robison
Director

By: /s/ Matthew T. September 21, 2011
Funke
Matthew T. Funke
Chief Financial Officer
(Principal Financial and Accounting Officer)

Index to Exhibits

| Regulation S-K Exhibit Number | Document |
|----------------------------------|-------------------------------------------------------------------------------------|
| 10.1 | Named Executive Officer Salary and Bonus Agreement for 2010 |
| 10.2 | Director Fee Arrangements |
| 11 | Statement Regarding Computation of Per Share Earnings |
| 13 | 2011 Annual Report to Stockholders |
| 14 | Code of Conduct and Ethics |
| 21 | Subsidiaries of the Registrant |
| 23.1 | Consent of Auditors |
| 23.2 | Consent of Auditors |
| 31 | Rule 13a-14(a)/15d-14(a) Certifications |
| 32 | Section 1350 Certifications |
| 99 | 31 C.F.R. section 30.15 Certifications of Principal Executive and Financial Officer |
| 58 | |

