SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from to

Commission file number 0-23406

Southern Missouri Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Missouri	43-1665523
(State or jurisdiction of incorporation)	(IRS employer id. no.)
531 Vine Street Poplar Bluff, MO	63901
(Address of principal executive offices)	(Zip code)

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

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

Yes X No

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

Yes X No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act)

Yes No X

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at February 13, 2014
Common Stock, Par Value $.01	3,311,740 Shares

SOUTHERN MISSOURI BANCORP, INC.
FORM 10-Q

INDEX

PART I.	Financial Information	PAGE NO.
Item 1.	Condensed Consolidated Financial Statements	
	- Condensed Consolidated Balance Sheets	3
	- Condensed Consolidated Statements of Income	4
	- Condensed Consolidated Statements of Comprehensive Income	5
	- Condensed Consolidated Statements of Cash Flows	6
	- Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	51
Item 4.	Controls and Procedures	53
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	54
Item 1a.	Risk Factors	54
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 3.	Defaults upon Senior Securities	54
Item 4.	Mine Safety Disclosures	54
Item 5.	Other Information	54
Item 6.	Exhibits	55
	- Signature Page	56
	- Certifications	

2

PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
DECEMBER 31 AND JUNE 30, 2013

	December 31, 2013 (unaudited)	June 30, 2013
Cash and cash equivalents	$19,884,920	$12,788,950
Interest-bearing time deposits	980,000	980,000
Available for sale securities	113,298,082	80,004,226
Stock in FHLB of Des Moines	4,269,400	2,006,600
Stock in Federal Reserve Bank of St. Louis	1,004,450	1,004,450
Loans receivable, net of allowance for loan losses of $9,084,904 and $8,385,980 at December 31 and June 30, 2013, respectively	748,729,674	647,165,899
Accrued interest receivable	4,784,598	3,969,697
Premises and equipment, net	19,843,367	17,515,834
Bank owned life insurance – cash surrender value	16,725,624	16,467,043
Identifiable intangible assets, net	1,632,503	352,427
Goodwill	2,034,190	687,999
Prepaid expenses and other assets	17,024,528	13,448,115
Total assets	$950,211,336	$796,391,240
Deposits	$729,790,874	$632,378,933
Securities sold under agreements to repurchase	21,800,967	27,788,192
Advances from FHLB of Des Moines	80,888,037	24,500,000
Accounts payable and other liabilities	2,117,519	2,149,234
Accrued interest payable	904,288	528,528
Subordinated debt	9,714,096	7,217,000
Total liabilities	845,215,781	694,561,887
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 20,000 shares issued and outstanding at December 31 and June 30, 2013	20,000,000	20,000,000
Common stock, $.01 par value; 8,000,000 shares authorized; 3,299,740 and 3,294,040 shares, respectively, issued at December 31 and June 30, 2013, respectively	32,677	32,620
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	22,846,593	22,752,744
Retained earnings	62,973,250	59,046,139
Accumulated other comprehensive loss	(1,033,755)	(178,940)
Total stockholders’ equity	104,995,555	101,829,353
Total liabilities and stockholders’ equity	$950,211,336	$796,391,240

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
INTEREST INCOME:				
Loans	$9,512,181	$8,730,367	$18,176,851	$17,584,301
Investment securities	509,437	376,663	918,811	739,366
Mortgage-backed securities	213,742	79,632	301,450	205,395
Other interest-earning assets	2,931	11,106	5,912	30,355
Total interest income	10,238,291	9,197,768	19,403,024	18,559,417
INTEREST EXPENSE:				
Deposits	1,505,658	1,496,722	2,954,170	3,076,424
Securities sold under agreements to repurchase	31,122	54,165	62,679	102,467
Advances from FHLB of Des Moines	285,554	258,742	541,470	513,454
Subordinated debt	85,147	57,646	140,852	116,772
Total interest expense	1,907,481	1,867,275	3,699,171	3,809,117
NET INTEREST INCOME	8,330,810	7,330,493	15,703,853	14,750,300
PROVISION FOR LOAN LOSSES	294,770	462,017	794,290	1,072,706
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,036,040	6,868,476	14,909,563	13,677,594
NONINTEREST INCOME:				
Deposit account charges and related fees	659,655	442,291	1,235,006	874,107
Bank card interchange income	339,696	289,790	658,450	588,309
Loan late charges	62,585	52,705	117,099	104,261
Other loan fees	152,093	73,019	227,866	145,579
Net realized gains on sale of loans	159,850	89,700	244,488	142,856
Net realized gains on available-for-sale securities	109,481	-	109,481	-
Earnings on bank owned life insurance	129,670	128,717	258,581	254,538
Other income	52,775	41,678	95,189	68,231
Total noninterest income	1,665,805	1,117,900	2,946,160	2,177,881
NONINTEREST EXPENSE:				
Compensation and benefits	3,031,551	2,523,408	5,662,973	4,984,574
Occupancy and equipment, net	978,299	681,323	1,762,103	1,373,234
Deposit insurance premiums	109,965	92,121	208,356	186,667
Legal and professional fees	684,920	116,193	910,926	215,252
Advertising	135,757	84,452	237,039	143,351
Postage and office supplies	167,278	123,027	270,431	226,550
Intangible amortization	175,915	104,283	280,198	208,566
Bank card network expense	180,900	142,653	323,024	286,763
Other operating expense	760,985	573,110	1,137,871	953,572
Total noninterest expense	6,225,570	4,440,570	10,792,921	8,578,529
INCOME BEFORE INCOME TAXES	3,476,275	3,545,806	7,062,802	7,276,946
INCOME TAXES	957,447	1,064,886	1,980,894	2,205,772
NET INCOME	$2,518,828	$2,480,920	$5,081,908	$5,071,174
Less: dividend on preferred shares	50,000	50,000	100,000	245,115

Net income available to common shareholders	$2,468,828	$2,430,920	$4,981,908	$4,826,059
Basic earnings per common share	$0.75	$0.74	$1.51	$1.47
Diluted earnings per common share	$0.73	$0.72	$1.47	$1.43
Dividends per common share	$0.16	$0.15	$0.32	$0.30

See Notes to Condensed Consolidated Financial Statements

4

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Net income	$2,518,828	$2,480,920	$5,081,908	$5,071,174
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available-for-sale	(153,829)	(14,363)	(1,248,877)	343,157
Less: reclassification adjustment for realized gains	109,481	-	109,481	-
Included in net income				
Unrealized gains on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	693	15,234	1,509	15,318
Tax benefit (expense)	97,168	(322)	502,034	(132,635)
Total other comprehensive income (loss)	(165,449)	549	(854,815)	225,840
Comprehensive income	$2,353,379	$2,481,469	$4,227,093	$5,297,014

See Notes to Condensed Consolidated Financial Statements

5

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (Unaudited)

	Six months ended December 31,	
	2013	2012
Cash Flows From Operating Activities:		
Net income	$5,081,908	$5,071,174
Items not requiring (providing) cash:		
Depreciation	724,805	537,074
Loss on disposal of fixed assets	168	20,875
Stock option and stock grant expense	7,095	107,095
Amortization of intangible assets	280,198	208,566
Increase in cash surrender value of bank owned life insurance	(258,581)	(254,538)
Gain on sale of foreclosed assets	(45,500)	(71,874)
Provision for loan losses and off-balance sheet credit exposures	794,290	1,072,706
Gains realized on AFS securities	(109,481)	-
Net amortization (accretion) of premiums and discounts on securities	290,281	287,784
Originations of loans held for sale	(5,751,624)	(3,389,505)
Proceeds from sales of loans held for sale	5,799,895	3,477,200
Gain on sales of loans held for sale	(226,056)	(142,856)
Changes in:		
Accrued interest receivable	(455,364)	(648,871)
Prepaid expenses and other assets	(149,168)	(2,483,778)
Accounts payable and other liabilities	(1,133,404)	617,223
Deferred taxes	40,584	(263,837)
Accrued interest payable	(100,133)	(85,560)
Net cash provided by operating activities	4,789,913	4,058,878
Cash flows from investing activities:		
Net increase in loans	(62,929,724)	(40,078,326)
Net change in interest-bearing deposits	-	(881,000)
Proceeds from maturities of available for sale securities	5,376,440	18,931,321
Proceeds from sales of available for sale securities	7,722,340	-
Net purchases of Federal Home Loan Bank stock	(2,101,400)	-
Purchases of available-for-sale securities	(13,660,413)	(21,383,823)
Purchases of premises and equipment	(1,897,209)	(4,539,833)
Net cash paid in acquisitions	(4,044,714)	-
Investments in state & federal tax credits	(3,385,154)	-
Proceeds from sale of fixed assets	-	26,500
Proceeds from sale of foreclosed assets	903,436	1,046,700
Net cash used in investing activities	(74,016,398)	(46,878,461)
Cash flows from financing activities:		
Net increase in demand deposits and savings accounts	25,889,200	15,922,582
Net increase in certificates of deposits	3,288,141	5,668,929
Net (decrease) increase in securities sold under agreements to repurchase	(7,086,900)	5,302,857
Net proceeds from Federal Home Loan Bank advances	55,300,000	-
Proceeds from issuance of common stock	-	66,555
Exercise of stock options	86,811	33,963

Dividends paid on preferred stock	(100,000)	(311,553)
Dividends paid on common stock	(1,054,797)	(986,712)
Net cash provided by financing activities	76,322,455	25,696,621
Increase (decrease) in cash and cash equivalents	7,095,970	(17,122,962)
Cash and cash equivalents at beginning of period	12,788,950	33,421,099
Cash and cash equivalents at end of period	$19,884,920	$16,298,137
Supplemental disclosures of cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$85,000	$2,984,720
Conversion of foreclosed real estate to loans	337,500	68,400
Conversion of loans to repossessed assets	32,952	199,082
Cash paid during the period for:		
Interest (net of interest credited)	$1,214,796	$1,171,468
Income taxes	1,778,000	1,541,084

See Notes to Condensed Consolidated Financial Statements

6

SOUTHERN MISSOURI BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet of the Company as of June 30, 2013, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three- and six-month periods ended December 31, 2013, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the audited consolidated financial statements included in the Company's June 30, 2013, Form 10-K, which was filed with the SEC.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Southern Bank (Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Organization and Summary of Significant Accounting Policies

Organization. Southern Missouri Bancorp, Inc., a Missouri corporation (the Company) was organized in 1994 and is the parent company of Southern Bank (the Bank). Substantially all of the Company's consolidated revenues are derived from the operations of the Bank, and the Bank represents substantially all of the Company's consolidated assets and liabilities.

The Bank is primarily engaged in providing a full range of banking and financial services to individuals and corporate customers in its market areas. The Bank and Company are subject to competition from other financial institutions. The Bank and Company are subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation. The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. Economic risk is comprised of interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities reprice on a different basis than its interest-earning assets. Credit risk is the risk of default on the Company's investment or loan portfolios resulting from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of the investment portfolio, collateral underlying loans receivable, and the value of the Company's investments in real estate.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ

from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, estimated fair values of purchased loans, other-than-temporary impairments (OTTI), and fair value of financial instruments.

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents includes cash, due from depository institutions and interest-bearing deposits in other depository institutions with original maturities of three

months or less. Interest-bearing deposits in other depository institutions were $14.8 million and $9.5 million at December 31 and June 30, 2013, respectively. The deposits are held in various commercial banks in amounts not exceeding the FDIC's deposit insurance limits, as well as at the Federal Reserve and the Federal Home Loan Bank of Des Moines.

Available for Sale Securities. Available for sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses, net of tax, are reported in accumulated other comprehensive loss, a component of stockholders' equity. All securities have been classified as available for sale.

Premiums and discounts on debt securities are amortized or accreted as adjustments to income over the estimated life of the security using the level yield method. Realized gains or losses on the sale of securities is based on the specific identification method. The fair value of securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The Company does not invest in collateralized mortgage obligations that are considered high risk.

When the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. As a result, the Company's balance sheet as of the dates presented reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive loss. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Federal Reserve Bank and Federal Home Loan Bank Stock. The Bank is a member of the Federal Reserve and the Federal Home Loan Bank (FHLB) systems. Capital stock of the Federal Reserve and the FHLB is a required investment based upon a predetermined formula and is carried at cost.

Loans. Loans are generally stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees.

Interest on loans is accrued based upon the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's judgment, the collectability of interest or principal in the normal course of business is doubtful. The Company complies with regulatory guidance which indicates that loans should be placed in nonaccrual status when 90 days past due, unless the loan is both well-secured and in the process of collection. A loan that is "in the process of collection" may be subject to legal action or, in appropriate circumstances, through other collection efforts reasonably expected to result in repayment or restoration to current status in the near future. A loan is considered delinquent when a payment has not been made by the contractual due date. Interest income previously accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Cash receipts on a nonaccrual loan are applied to principal and interest in accordance with its contractual terms unless full payment of principal is not expected, in which case cash receipts, whether designated as principal or interest, are applied as a reduction of the carrying value of the loan. A nonaccrual loan is generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured, and a consistent record of performance has been demonstrated.

The allowance for losses on loans represents management’s best estimate of losses probable in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries. Loans are charged off in the period deemed uncollectible, based on management’s analysis of expected cash flow (for non-collateral dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries of loans previously charged off, if any, are credited to the allowance when received. The provision for losses on loans is determined based on management’s assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic

8

conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

Loans are considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. Valuation allowances are established for collateral-dependent impaired loans for the difference between the loan amount and fair value of collateral less estimated selling costs. For impaired loans that are not collateral dependent, a valuation allowance is established for the difference between the loan amount and the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. Impairment losses are recognized through an increase in the required allowance for loan losses. Cash receipts on loans deemed impaired are recorded based on the loan's separate status as a nonaccrual loan or an accrual status loan.

As a result of the acquisition of the former First Southern Bank, Batesville, Arkansas, the Company acquired certain loans with an outstanding principal balance of $14.2 million for which it was deemed probable that we would be unable to collect all contractually required payments. These loans are accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company recorded a fair value discount of $3.9 million related to these loans acquired with deteriorated credit quality ("purchased credit impaired loans"), and began carrying them at a value of $10.3 million. For these loans, we determined the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows"), and estimated the amount and timing of undiscounted expected principal and interest payments, including expected prepayments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference is an estimate of the loss exposure of principal and interest related to the purchased credit impaired loans, and the amount is subject to change over time based on the performance of the loans. The carrying value of purchased credit impaired loans is initially determined as the discounted expected cash flows. The excess of expected cash flows at acquisition over the initial fair value of the purchased credit impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the acquired loans using the level-yield method, if the timing and amount of the future cash flows is reasonably estimable. The carrying value of purchased credit impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income. Subsequent to acquisition, the Company evaluates the purchased credit impaired loans on a quarterly basis. Increases in expected cash flows compared to those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in expected cash flows compared to those previously estimated decrease the accretable yield and may result in the establishment of an allowance for loan losses and a provision for loan losses. Purchased credit impaired loans are generally considered accruing and performing loans, as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, purchased credit impaired loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Foreclosed Real Estate. Real estate acquired by foreclosure or by deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. Costs for development and improvement of the property are capitalized.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less estimated selling costs.

Loans to facilitate the sale of real estate acquired in foreclosure are discounted if made at less than market rates. Discounts are amortized over the fixed interest period of each loan using the interest method.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and include expenditures for major betterments and renewals. Maintenance, repairs, and minor renewals are expensed as

incurred. When property is retired or sold, the retired asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss taken into income. The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Depreciation is computed by use of straight-line and accelerated methods over the estimated useful lives of the assets. Estimated lives are generally seven to forty years for premises, three to seven years for equipment, and three years for software.

Intangible Assets. Identifiable intangible assets are being amortized on a straight-line basis over periods ranging from five to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Goodwill is tested periodically for impairment.

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Equity Incentive Plan. The Company accounts for its Equity Incentive Plan (EIP) in accordance with ASC 718, “Share-Based Payment.” Compensation expense is based on the market price of the Company’s stock on the date the shares are granted and is recorded over the vesting period.

Outside Directors’ Retirement. The Bank adopted a directors’ retirement plan in April 1994 for outside directors. The directors’ retirement plan provides that each non-employee director (participant) shall receive, upon termination of service on the Board on or after age 60, other than termination for cause, a benefit in equal annual installments over a five year period. The benefit will be based upon the product of the participant’s vesting percentage and the total Board fees paid to the participant during the calendar year preceding termination of service on the Board. The vesting percentage shall be determined based upon the participant’s years of service on the Board.

In the event that the participant dies before collecting any or all of the benefits, the Bank shall pay the participant's beneficiary. No benefits shall be payable to anyone other than the beneficiary, and shall terminate on the death of the beneficiary.

Stock Options. The amount of compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the vesting period during which an employee provides service in exchange for the award.

Earnings Per Share. Basic earnings per share available to common stockholders is computed using the weighted-average number of common shares outstanding. Diluted earnings per share available to common stockholders

includes the effect of all weighted-average dilutive potential common shares (stock options and warrants) outstanding during each period.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, and changes in the funded status of defined benefit pension plans.

Reclassification. Certain amounts included in the consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure," to reduce diversity by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects," to permit entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The ASU modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company is reviewing the ASU, but does not expect adoption will result in a significant effect on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," to require presentation in the financial statements of an unrecognized tax benefit or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward, except as follows. When an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or when the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes," to allow the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the current benchmark rates of direct Treasury obligations of the U.S. government and LIBOR (London Interbank Offered Rate). The amendments were effective on a prospective basis for new or newly-designated hedging relationships on July 17, 2013. Adoption did not have a significant effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-04, “Obligations Resulting From Joint and Several Liability Agreements for Which the Total Amount of the Obligation is Fixed at the Reporting Date,” to amend Topic 405, Liabilities, to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date, expect for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information

about the obligation. The ASU is effective for fiscal years beginning after December 31, 2013. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to amend Topic 220, Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments require an entity to present, either in the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU was effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures About Offsetting Assets and Liabilities," to amend Topic 210, Balance Sheet, to enhance current disclosures and increase comparability of GAAP and International Financial Reporting Standards (IFRS) financial statements. Under the ASU, an entity is required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities," to clarify the scope of transactions that are subject to offsetting, to specifically include only derivatives accounted for under Topic 815, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset or subject to an enforceable master netting arrangement. Both ASUs were effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

Note 3: Securities

The amortized cost, gross unrealized gains, gross unrealized losses, and approximate fair value of securities available for sale consisted of the following:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$26,095,700	$11,427	$(1,114,727)	$24,992,400
State and political subdivisions	45,022,534	999,987	(457,910)	45,564,611
Other securities	4,449,577	51,189	(1,075,815)	3,424,951
Mortgage-backed: GSE residential	37,283,052	226,154	(316,698)	37,192,508
Mortgage-backed: other U.S. government agencies	2,125,034	-	(1,422)	2,123,612
Total investments and mortgage-backed securities	$114,975,897	$1,288,757	$(2,966,572)	$113,298,082

June 30, 2013

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$22,972,073	$2,590	$(566,778)	$22,407,885
State and political subdivisions	38,135,005	1,432,739	(244,437)	39,323,307
Other securities	2,638,303	37,328	(1,116,652)	1,558,979
Mortgage-backed: GSE residential	14,174,119	343,138	(206,713)	14,310,544
Mortgage-backed: other U.S. government agencies	2,405,692	-	(2,181)	2,403,511
Total investments and mortgage-backed securities	$80,325,192	$1,815,795	$(2,136,761)	$80,004,226

12

The amortized cost and estimated fair value of investment and mortgage-backed securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	December 31, 2013	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$577,685	$578,995
After one year but less than five years	19,703,011	19,585,013
After five years but less than ten years	26,510,272	25,904,700
After ten years	28,776,843	27,913,254
Total investment securities	75,567,811	73,981,962
Mortgage-backed securities	39,408,086	39,316,120
Total investments and mortgage-backed securities	$114,975,897	$113,298,082

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31 and June 30, 2013:

	December 31, 2013					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$22,106,369	$1,032,971	$914,831	$81,756	$23,021,200	$1,114,727
State and political subdivisions	14,874,625	286,601	2,114,165	171,309	16,988,790	457,910
Other securities	1,006,501	4,995	496,972	1,070,820	1,503,473	1,075,815
Mortgage-backed: GSE residential	21,595,529	316,698	-	-	21,595,529	316,698
Mortgage-backed: other U.S. government agencies	-	-	2,123,612	1,422	2,123,612	1,422
Total investments and mortgage-backed securities	$59,583,024	$1,641,265	$5,649,580	$1,325,307	$65,232,604	$2,966,572

	June 30, 2013					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$20,397,826	$566,778	$-	$-	$20,397,826	$566,778
State and political subdivisions	8,588,542	173,966	2,525,673	70,471	11,114,215	244,437
Other securities	-	-	445,777	1,116,652	445,777	1,116,652
	3,052,069	206,713	-	-	3,052,069	206,713

Mortgage-backed: GSE residential						
Mortgage-backed: other U.S. government agencies	-	-	2,403,511	2,181	2,403,511	2,181
Total investments and mortgage-backed securities	$32,038,437	$947,457	$5,374,961	$1,189,304	$37,413,398	$2,136,761

Other securities. At December 31, 2013, there were four pooled trust preferred securities with an estimated fair value of $497,000 and unrealized losses of $1.0 million in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the pooled trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the financial institutions that have issued the underlying trust preferred securities. Rules adopted by the federal banking agencies in December 2013 to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule") generally prohibits banking entities from engaging in proprietary trading and from investing in, sponsoring, or having certain relationships with a hedge fund or private equity fund. The pooled trust preferred securities owned by the Company were included in a January 2014 listing of such securities which the agencies considered to be grandfathered with regard to these prohibitions; as such, banking entities are permitted to retain their interest in these securities, provided the interest was acquired on or before December 10, 2013, unless acquired pursuant to a merger or acquisition.

The December 31, 2013, cash flow analysis for three of these securities indicated it is probable the Company will receive all contracted principal and related interest projected. The cash flow analysis used in making this determination was based on anticipated default, recovery, and prepayment rates, and the resulting cash flows were discounted based on the yield anticipated at the time the securities were purchased. Other inputs include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions, including profitability, capital ratios, and asset quality. Assumptions for these three securities included prepayments within one year by all fixed-rate issuers of asset size greater than $15 billion, and by all variable rate issuers with spreads of greater than 250 basis points, to account for the lack of favorable capital treatment under the Dodd-Frank regulatory reform bill; prepayments within one year by smaller, profitable, and well-capitalized issuers with fixed rate coupons in excess of 8%; and other prepayments of 1% every year thereafter, to account for isolated prepayments; no recoveries on issuers currently in default; recoveries of 31 to 65 percent on currently deferred issuers within the next two years; new defaults of 2% annually for the next two years; annual defaults of 36 basis points thereafter; and recoveries of 10% of new defaults.

One of these three securities continues to receive cash interest payments in full and our cash flow analysis indicates that these payments are likely to continue. Because the Company does not intend to sell this security and it is not more-likely-than-not that the Company will be required to sell the security prior to recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2013.

For the other two of these three securities, the Company is receiving principal-in-kind (PIK), in lieu of cash interest. These securities all allow, under the terms of the issue, for issuers to defer interest for up to five consecutive years. After five years, if not cured, the securities are considered to be in default and the trustee may demand payment in full of principal and accrued interest. Issuers are also considered to be in default in the event of the failure of the issuer or a subsidiary. Both deferred and defaulted issuers are considered non-performing, and the trustee calculates, on a quarterly or semi-annual basis, certain coverage tests prior to the payment of cash interest to owners of the various tranches of the securities. The tests must show that performing collateral is sufficient to meet requirements for senior tranches, both in terms of cash flow and collateral value, before cash interest can be paid to subordinate tranches. If the tests are not met, available cash flow is diverted to pay down the principal balance of senior tranches until the coverage tests are met, before cash interest payments to subordinate tranches may resume. The Company is receiving PIK for these two securities due to failure of the required coverage tests described above at senior tranche levels of these securities. The risk to holders of a tranche of a security in PIK status is that the pool’s total cash flow will not be sufficient to repay all principal and accrued interest related to the investment. The impact of payment of PIK to subordinate tranches is to strengthen the position of senior tranches, by reducing the senior tranches’ principal balances relative to available collateral and cash flow, while increasing principal balances, decreasing cash flow, and increasing credit risk to the tranches receiving PIK. For our securities in receipt of PIK, the principal balance is increasing, cash flow has stopped, and, as a result, credit risk is increasing. The Company expects these securities to remain in PIK status for a period of one to seven years. Despite these facts, because the Company does not intend to sell these two securities and it is not more-likely-than-not that the Company will be required to sell these two securities prior to recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2013.

At December 31, 2008, analysis of the fourth pooled trust preferred security 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 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 quarter ended December 31, 2009, and the twelve months ended June 30, 2009. At December 31, 2013, cash flow analyses showed it is probable the Company will receive all of the remaining cost basis and related interest projected for the security. The cash flow analysis used in making this determination was based similar inputs and factors as those described above. Assumptions for this security included prepayments within one year by all fixed-rate issuers of asset size greater than $15 billion, and by all variable rate issuers with spreads of greater than 250 basis points, to account for the lack of favorable capital treatment under the Dodd-Frank regulatory reform bill; prepayments within one year by smaller, profitable, and well-capitalized issuers with fixed rate coupons in excess of 8%; and other prepayments of 1% every year thereafter, to account for isolated prepayments; no recoveries

on issuers currently in default; recoveries of 58% on currently deferred issuers within the next two years; new defaults of 2% annually for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter. This security is in PIK status due to similar criteria and factors as those described above, with similar impact to the Company. This security is projected to remain in PIK status for a period of less than one year. Because the Company does not intend to sell this security and it is not more-likely-than-not the Company will be required to sell this security before recovery of its new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment in this security to be other-than-temporarily impaired at December 31, 2013.

The Company does not believe any other individual unrealized loss as of December 31, 2013, represents OTTI. However, given the recent disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

Credit losses recognized on investments. As described above, one of the Company's investments in trust preferred securities has experienced fair value deterioration due to credit losses, but is not otherwise other-than-temporarily impaired. During fiscal 2009, the Company adopted ASC 820, formerly FASB Staff Position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the six-month periods ended December 31, 2013 and 2012.

	Accumulated Credit Losses Six-Month Period Ended December 31,	
	2013	2012
Credit losses on debt securities held		
Beginning of period	$375,000	$375,000
Additions related to OTTI losses not previously recognized	-	-
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously-recognized OTTI losses	-	-
Reductions due to increases in expected cash flows	-	-
End of period	$375,000	$375,000

Note 4: Loans and Allowance for Loan Losses

Classes of loans are summarized as follows:

	December 31, 2013	June 30, 2013
Real Estate Loans:		
Residential	$283,350,157	$233,888,442
Construction	29,375,436	30,724,858
Commercial	285,461,133	242,303,922
Consumer loans	32,106,430	28,414,878

Commercial loans	133,648,353	130,868,484
	763,941,509	666,200,584
Loans in process	(6,260,256)	(10,792,041)
Deferred loan fees, net	133,325	143,336
Allowance for loan losses	(9,084,904)	(8,385,980)
Total loans	$748,729,674	$647,165,899

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

Residential Mortgage Lending. The Company actively originates loans for the acquisition or refinance of one- to four-family residences. This category includes both fixed-rate and adjustable-rate mortgage ("ARM") loans amortizing over periods of up to 30 years, and the properties securing such loans may be owner-occupied or non-owner-occupied. Single-family residential loans do not generally exceed 90% of the lower of the appraised value or purchase price of the secured property. Substantially all of the one- to four-family residential mortgage originations in the Company's portfolio are located within the Company's primary market area.

The Company also originates loans secured by multi-family residential properties that are generally located in the Company's primary market area. 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 typically 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. Generally, multi-family residential loans do not exceed 85% of the lower of the appraised value or purchase price of the secured property.

Commercial Real Estate Lending. The Company actively originates loans secured by commercial real estate including land (improved, unimproved, and farmland), strip shopping centers, retail establishments and other businesses. These properties are typically owned and operated by borrowers headquartered within the Company's primary lending area, however, the property may be located outside our primary lending area.

Most commercial real estate loans originated by the Company 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. The Company typically includes an interest rate "floor" in the loan agreement. 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.

Construction Lending. The Company originates real estate loans secured by property or land that is under construction or development. Construction loans originated by the Company 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. During construction, these loans typically require monthly interest-only payments and have maturities ranging from six to twelve 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.

While the Company typically utilizes maturity periods ranging from 6 to 12 months to closely monitor the inherent risks associated with construction loans for these loans, weather conditions, change orders, availability of materials and/or labor, and other factors may contribute to the lengthening of a project, thus necessitating the need to renew the construction loan at the balloon maturity. Such extensions are typically executed in incremental three month periods to facilitate project completion. The Company's average term of construction loans is approximately 14 months. During construction, loans typically require monthly interest only payments which may allow the Company an opportunity to monitor for early signs of financial difficulty should the borrower fail to make a required monthly payment. Additionally, during the construction phase, the Company typically obtains interim inspections completed by an independent third party. This monitoring further allows the Company opportunity to assess risk. At December 31, 2013, construction loans outstanding included 16 loans, totaling $6.4 million, for which a modification had been agreed to. At June 30, 2013, construction loans outstanding included 29 loans, totaling $6.9 million, for which a modification had been agreed to. All modifications were solely for the purpose of extending the maturity date due to

conditions described above. None of these modifications were executed due to financial difficulty on the part of the borrower and, therefore, were not accounted for as TDRs.

Consumer Lending. The Company offers a variety of secured consumer loans, including home equity, direct and indirect automobile loans, second mortgages, mobile home loans and loans secured by deposits. The Company 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.

16

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 and are typically issued for a term of ten years. Interest rates on the HELOCs are generally adjustable. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity.

Automobile loans originated by the Company include both direct loans and a smaller amount of loans originated by auto dealers. The Company generally pays a negotiated fee back to the dealer for indirect 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.

Commercial Business Lending. The Company'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, including agricultural production and equipment loans. The Company offers both fixed and adjustable rate commercial business loans. 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 following tables present the balance in the allowance for loan losses and the recorded investment in loans (excluding loans in process and deferred loan fees) based on portfolio segment and impairment methods as of December 31, 2013, and June 30, 2013, and activity in the allowance for loan losses for the three-month periods ended December 31, 2013 and 2012:

	At period end for the six months ended December 31, 2013					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, beginning of period	$1,809,975	$272,662	$3,602,542	$471,666	$2,229,135	$8,385,980
Provision charged to expense	330,429	151,322	253,085	30,653	28,802	794,290
Losses charged off	(23,062)	-	(69,457)	(17,066)	(13,266)	(122,851)
Recoveries	14,090	-	686	10,881	1,828	27,485
Balance, end of period	$2,131,432	$423,984	$3,786,856	$496,134	$2,246,499	$9,084,904
Ending Balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-
Ending Balance: collectively evaluated for impairment	$2,131,432	$423,984	$3,786,856	$496,134	$1,746,499	$8,584,904
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-	$500,000	$500,000

Loans:						
Ending Balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-
Ending Balance: collectively evaluated for impairment	$281,623,511	$23,115,180	$284,175,920	$32,106,430	$132,788,982	$753,810,023
Ending Balance: loans acquired with deteriorated credit quality	$1,726,646	$-	$1,285,213	$-	$859,371	$3,871,230

	For the three months ended December 31, 2013					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, beginning of period	$1,957,412	$ 289,844	$ 3,737,990	$497,871	$ 2,311,703	$8,794,820
Provision charged to expense	169,658	134,140	56,680	591	(66,299)	294,770
Losses charged off	(8,976)	-	(8,156)	(9,130)	-	(26,262)
Recoveries	13,338	-	341	6,802	1,095	21,576
Balance, end of period	$2,131,432	$ 423,984	$ 3,786,856	$496,134	$ 2,246,499	$9,084,904

	At period end for the six months ended December 31, 2012					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, beginning of period	$1,635,346	$ 243,169	$ 2,985,838	$483,597	$ 2,144,104	$7,492,054
Provision charged to expense	290,255	(90,913)	815,427	44,680	13,257	1,072,706
Losses charged off	(203,242)	-	(417,071)	(8,589)	(29,466)	(658,368)
Recoveries	224	-	4,462	6,698	2,425	13,809
Balance, end of period	$1,722,583	$ 152,256	$ 3,388,656	$526,386	$ 2,130,320	$7,920,201
Ending Balance: individually evaluated for impairment	$-	$ -	$ 100,000	$-	$ -	$100,000
Ending Balance: collectively evaluated for impairment	$1,722,583	$ 152,256	$ 3,288,656	$526,386	$ 1,620,333	$7,310,214
Ending Balance: loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$ 509,987	$509,987

	For the three months ended December 31, 2012					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, beginning of period	$1,714,363	$ 191,784	$ 3,456,760	$522,655	$ 2,195,276	$8,080,838
Provision charged to expense	197,478	(39,528)	344,852	(683)	(40,102)	462,017
Losses charged off	(189,370)	-	(416,843)	-	(26,223)	(632,436)
Recoveries	112	-	3,887	4,414	1,369	9,782
Balance, end of period	$1,722,583	$ 152,256	$ 3,388,656	$526,386	$ 2,130,320	$7,920,201

	June 30, 2013					
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, end of period	$1,809,975	$272,662	$3,602,542	$471,666	$2,229,135	$8,385,980
Ending Balance: individually evaluated for impairment	$-	$-	$85,000	$-	$-	$85,000
Ending Balance: collectively evaluated for impairment	$1,809,975	$272,662	$3,517,542	$471,666	$1,671,646	$7,743,491
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-	$557,489	$557,489

Loans:						
Ending Balance: individually evaluated for impairment	$-	$-	$144,328	$-	$-	$144,328
Ending Balance: collectively evaluated for impairment	$232,186,722	$19,932,817	$240,888,891	$28,414,878	$129,735,511	$651,158,819
Ending Balance: loans acquired with deteriorated credit quality	$1,701,720	$-	$1,270,703	$-	$1,132,973	$4,105,396

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to cover probable credit losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when an amount is determined to be uncollectible, based on management's analysis of expected cash flow (for non-collateral-dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

Under the Company's methodology, loans are first segmented into 1) those comprising large groups of smaller-balance homogeneous loans, including single-family mortgages and installment loans, which are collectively evaluated for impairment, and 2) all other loans which are individually evaluated. Those loans in the second category are further segmented utilizing a defined grading system which involves categorizing loans by severity of risk based on conditions that may affect the ability of the borrowers to repay their debt, such as current financial information, collateral valuations, historical payment experience, credit documentation, public information, and current trends. The loans subject to credit classification represent the portion of the portfolio subject to the greatest credit risk and where adjustments to the allowance for losses on loans as a result of provisions and charge offs are most likely to have a significant impact on operations.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest will not be able to be collected when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, individual consumer and residential loans are not separately identified for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

The general component covers non-impaired loans and is based on quantitative and qualitative factors. The loan portfolio is stratified into homogeneous groups of loans that possess similar loss characteristics and an appropriate loss ratio adjusted for qualitative factors is applied to the homogeneous pools of loans to estimate the incurred losses in the loan portfolio.

Included in the Company's loan portfolio are certain loans accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans were written down at acquisition to an amount estimated to be collectible. As a result, certain ratios regarding the Company's loan portfolio and credit quality cannot be used to compare the Company to peer companies or to compare the Company's current credit quality to prior periods. The ratios particularly affected by accounting under ASC 310-30 include the allowance for loan losses as a

percentage of loans, nonaccrual loans, and nonperforming assets, and nonaccrual loans and nonperforming loans as a percentage of total loans.

The following tables present the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and payment activity as of December 31 and June 30, 2013. These tables include purchased credit impaired loans, which are reported according to risk categorization after acquisition based on the Company's standards for such classification:

19

	December 31, 2013				
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$279,514,531	$23,115,180	$278,784,189	$31,924,312	$132,080,592
Watch	2,886,421	-	2,981,694	41,158	345,234
Special Mention	-	-	-	-	-
Substandard	949,205	-	3,695,250	140,960	1,222,527
Doubtful	-	-	-	-	-
Total	$283,350,157	$23,115,180	$285,461,133	$32,106,430	$133,648,353

	June 30, 2013				
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$231,230,256	$19,932,817	$237,131,788	$28,252,411	$129,782,625
Watch	1,881,836	-	1,594,368	41,463	55,858
Special Mention	-	-	-	-	-
Substandard	776,350	-	3,577,766	121,004	1,030,001
Doubtful	-	-	-	-	-
Total	$233,888,442	$19,932,817	$242,303,922	$28,414,878	$130,868,484

The above amounts include purchased credit impaired loans. At December 31, 2013, purchased credited impaired loans accounted for $400,000 of loans rated “Pass”; $1.7 million of loans rated “Watch”; no loans rated “Special Mention”; $1.8 million of loans rated “Substandard”; and no loans rated “Doubtful”. At June 30, 2013, these purchased credit impaired loans accounted for $600,000 of loans rated “Pass”; $1.7 million of loans rated “Watch”; no loans rated “Special Mention”; $1.8 million of loans rated “Substandard”; and no loans rated “Doubtful”.

Credit Quality Indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at origination, and is updated on a quarterly basis for loans risk rated “Special Mention”, “Substandard”, or “Doubtful”. In addition, lending relationships over $250,000 are subject to an independent loan review following origination, and lending relationships in excess of $2.5 million are subject to an independent loan review annually, as are a sample of lending relationships between $1.0 million and $2.5 million, in order to verify risk ratings.

The Company uses the following definitions for risk ratings:

Watch – Loans classified as watch exhibit weaknesses that require more than usual monitoring. Issues may include deteriorating financial condition, payments made after due date but within 30 days, adverse industry conditions or management problems.

Special Mention – Loans classified as special mention exhibit signs of further deterioration but still generally make payments within 30 days. This is a transitional rating and loans should typically not be rated Special Mention for more than 12 months

Substandard – Loans classified as substandard possess weaknesses that jeopardize the ultimate collection of the principal and interest outstanding. These loans exhibit continued financial losses, ongoing delinquency, overall poor financial condition, and insufficient collateral. They are characterized by the distinct possibility that the institution

will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses of substandard loans, and have deteriorated to the level that there is a high probability of substantial loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of December 31 and June 30, 2013. At December 31 and June 30, 2013, there were no purchased credit impaired loans that were past due. These tables include purchased credit impaired loans, which are reported according to aging analysis after acquisition based on the Company's standards for such classification:

	December 31, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Residential	$1,137,566	$148,346	$200,267	$1,486,179	$281,863,978	$283,350,157	$-
Construction	-	-	-	-	23,115,180	23,115,180	-
Commercial	512,867	304,088	-	816,955	284,644,178	285,461,133	-
Consumer loans	182,002	40,080	27,289	249,371	31,857,059	32,106,430	-
Commercial loans	210,239	68,368	117,567	396,174	133,252,179	133,648,353	-
Total loans	$2,042,674	$560,882	$345,123	$2,948,679	$754,732,574	$757,681,253	$-

	June 30, 2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Residential	$369,898	$66,213	$102,498	$538,609	$233,349,833	$233,888,442	$-
Construction	-	-	-	-	19,932,817	19,932,817	-
Commercial	-	-	225,099	225,099	242,078,823	242,303,922	-
Consumer loans	239,323	42,924	12,275	294,522	28,120,356	28,414,878	-
Commercial loans	63,394	-	18,266	81,660	130,786,824	130,868,484	-
Total loans	$672,615	$109,137	$358,138	$1,139,890	$654,268,653	$655,408,543	$-

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, as well as performing loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The tables below present impaired loans (excluding loans in process and deferred loan fees) as of December 31 and June 30, 2013. These tables include purchased credit impaired loans. Purchased credit impaired loans are those for which it was deemed probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable. In an instance where, subsequent to the acquisition, the Company determines it is probable, for

a specific loan, that cash flows received will exceed the amount previously expected, the Company will recalculate the amount of accretable yield in order to recognize the improved cash flow expectation as additional interest income over the remaining life of the loan. These loans, however, will continue to be reported as impaired loans. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will be less than the amount previously expected, the Company will allocate a specific allowance under the terms of ASC 310-10-35.

	December 31, 2013		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,748,604	$2,085,113	$-
Construction real estate	-	-	-
Commercial real estate	3,124,558	3,135,605	-
Consumer loans	-	-	-
Commercial loans	116,110	116,110	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	-	-	-
Consumer loans	-	-	-
Commercial loans	715,791	1,285,668	500,000
Total:			
Residential real estate	$1,748,604	$2,085,113	$-
Construction real estate	$-	$-	$-
Commercial real estate	$3,124,558	$3,135,605	$-
Consumer loans	$-	$-	$-
Commercial loans	$831,901	$1,401,778	$500,000

	June 30, 2013		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,701,720	$2,096,135	$-
Construction real estate	-	-	-
Commercial real estate	3,115,324	3,167,982	-
Consumer loans	-	-	-
Commercial loans	387,167	391,759	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	144,328	144,328	85,000
Consumer loans	-	-	-
Commercial loans	755,883	1,325,760	557,489
Total:			
Residential real estate	$1,701,720	$2,096,135	$-
Construction real estate	$-	$-	$-
Commercial real estate	$3,259,652	$3,312,310	$85,000
Consumer loans	$-	$-	$-
Commercial loans	$1,143,050	$1,717,519	$557,489

The above amounts include purchased credit impaired loans. At December 31, 2013, purchased credit impaired loans accounted for $3.2 million of impaired loans without a specific valuation allowance; $716,000 of loans with a specific valuation allowance; and $3.9 million of total impaired loans. At June 30, 2013, purchased credit impaired loans accounted for $3.3 million of impaired loans without a specific valuation allowance; $756,000 of loans with a specific valuation allowance; and $4.1 million of total impaired loans.

The following tables present information regarding interest income recognized on impaired loans:

	For the three-month period ended December 31, 2013	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,738	$63
Construction Real Estate	-	-
Commercial Real Estate	1,287	38
Consumer Loans	-	-
Commercial Loans	845	-
Total Loans	$3,870	$101

	For the three-month period ended December 31, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized

Residential Real Estate	$1,799	$141
Construction Real Estate	-	-
Commercial Real Estate	1,668	48
Consumer Loans	165	-
Commercial Loans	1,306	24
Total Loans	$4,938	$213

	For the six-month period ended December 31, 2013	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,726	$127
Construction Real Estate	-	-
Commercial Real Estate	1,329	89
Consumer Loans	-	-
Commercial Loans	941	1
Total Loans	$3,996	$217

	For the six-month period ended December 31, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,589	$269
Construction Real Estate	-	-
Commercial Real Estate	2,375	98
Consumer Loans	-	-
Commercial Loans	1,322	49
Total Loans	$5,286	$416

Interest income on impaired loans recognized on a cash basis in the three- and six month periods ended December 31, 2013 and 2012, was immaterial.

For the three- and six-month periods ended December 31, 2013, the amount of interest income recorded for impaired loans that represented a change in the present value of cash flows attributable to the passage of time was approximately $45,000 and $104,000, respectively, as compared to $128,000 and $245,000, respectively, for the three- and six-month periods ended December 31, 2012.

The following table presents the Company’s nonaccrual loans at December 31 and June 30, 2013. This table includes purchased impaired loans. Purchased credit impaired loans are placed on nonaccrual status in the event the Company cannot reasonably estimate cash flows expected to be collected. The table excludes performing troubled debt restructurings.

	December 31, 2013	June 30, 2013
Residential real estate	$386,639	$413,924
Construction real estate	-	-
Commercial real estate	351,132	156,856
Consumer loans	45,891	24,699
Commercial loans	848,320	841,924
Total loans	$1,631,982	$1,437,403

The above amounts include purchased credit impaired loans. At December 31 and June 30, 2013, these loans comprised $716,000 and $756,000 of nonaccrual loans, respectively.

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

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs, for collateral

dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

During the three- and six-month periods ended December 31, 2013 and 2012, certain loans were classified as TDRs. They are shown, segregated by class, in the table below:

	For the three-month period ended			
	December 31, 2013		December 31, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	-	$-	-	$-
Construction real estate	-	-	-	-
Commercial real estate	-	-	1	330,748
Consumer loans	-	-	-	-
Commercial loans	-	-	1	73,369
Total	-	$-	2	$404,117

	For the six-month period ended			
	December 31, 2013		December 31, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	1	$38,288	-	$-
Construction real estate	-	-	1	100,351
Commercial real estate	1	30,077	3	1,134,756
Consumer loans	-	-	-	-
Commercial loans	-	-	3	239,288
Total	2	$68,365	7	$1,474,395

Performing loans classified as TDRs and outstanding at December 31 and June 30, 2013, segregated by class, are shown in the table below. Nonperforming TDRs are shown as nonaccrual loans.

	December 31, 2013		June 30, 2013	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	6	$1,748,605	6	$1,663,477
Construction real estate	-	-	-	-
Commercial real estate	12	2,891,356	11	2,856,884
Consumer loans	-	-	-	-
Commercial loans	1	116,110	3	363,020
Total	19	$4,756,071	20	$4,883,381

Note 5: Accounting for Certain Loans Acquired in a Transfer

The Company acquired loans in a transfer during the fiscal year ended June 30, 2011. At acquisition, certain transferred loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially

measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at December 31 and June 30, 2013. The amounts of these loans at December 31 and June 30, 2013, are as follows:

	December 31, 2013	June 30, 2013
Real Estate Loans:		
Residential	$2,085,113	$2,096,135
Construction	-	-
Commercial	1,299,293	1,323,361
Consumer loans	-	-
Commercial loans	1,401,778	1,707,442
Outstanding balance	$4,786,184	$5,126,938
Carrying amount, net of fair value adjustment of $917,433 and $1,021,542 at December 31 and June 30, 2013, respectively	$3,868,751	$4,105,396

Accretable yield, or income expected to be collected, is as follows:

	Three-month period ending	
	December 31, 2013	December 31, 2012
Balance at beginning of period	$711,312	$489,356
Additions	-	-
Accretion	(74,826)	(147,606)
Reclassification from nonaccretable difference	774	496,299
Disposals	-	-
Balance at end of period	$637,260	$838,049

	Six-month period ending	
	December 31, 2013	December 31, 2012
Balance at beginning of period	$798,789	$489,356
Additions	-	-
Accretion	(164,477)	(147,606)
Reclassification from nonaccretable difference	2,948	496,299
Disposals	-	-
Balance at end of period	$637,260	$838,049

During the three- and six-month periods ended December 31, 2013, the Company increased the allowance for loan losses by a charge to the income statement of $74,314 and $0, respectively, related to these purchased credit impaired loans, as compared to $24,223 and $166,000, respectively, during the same periods of the prior fiscal year. During the three- and six-month periods ended December 31, 2013, allowance for loan losses of $0 and $57,489, respectively,

was reversed, as compared to $3,300 and $5,300, respectively, during the same periods of the prior fiscal year.

Note 6: Deposits

Deposits are summarized as follows:

	December 31, 2013	June 30, 2013
Non-interest bearing accounts	$58,259,738	$45,441,845
NOW accounts	253,833,018	208,047,966
Money market deposit accounts	26,186,235	22,274,947
Savings accounts	87,336,653	84,372,522
Certificates	304,175,230	272,241,653
Total Deposit Accounts	$729,790,874	$632,378,933

Note 7: Earnings Per Share

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

	Three months ended December 31,		Six months ended December 31	
	2013	2012	2013	2012
Net income	$2,518,828	$2,480,920	$5,081,908	$5,071,174
Charge for early redemption of preferred stock issued at discount	-	-	-	-
Dividend payable on preferred stock	50,000	50,000	100,000	245,115
Net income available to common shareholders	$2,468,828	$2,430,920	$4,981,908	$4,826,059
Average Common shares – outstanding basic	3,296,805	3,289,309	3,295,924	3,288,839
Stock options under treasury stock method	104,759	94,241	98,567	92,865
Average Common shares – outstanding diluted	3,401,564	3,383,550	3,394,491	3,381,704
Basic earnings per common share	$0.75	$0.74	$1.51	$1.47
Diluted earnings per common share	$0.73	$0.72	$1.47	$1.43

At December 31, 2013 and 2012, no options outstanding had an exercise price exceeding the market price.

Note 8: Income Taxes

The Company files income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to federal and state examinations by tax authorities for fiscal years before 2010. The Company recognized no interest or penalties related to income taxes.

The Company's income tax provision is comprised of the following components:

	For the three-month period ended		For the six-month period ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Income taxes				
Current	$136,978	$1,328,723	$1,401,099	$2,469,609
Deferred	820,469	(263,837)	579,795	(263,837)
Total income tax provision	$957,447	$1,064,886	$1,980,894	$2,205,772

The components of net deferred tax assets (liabilities) are summarized as follows:

	December 31, 2013	June 30, 2013
Deferred tax assets:		
Provision for losses on loans	$3,783,553	$3,545,918
Accrued compensation and benefits	225,813	211,117
Other-than-temporary impairment on available for sale securities	120,780	261,405
NOL carry forwards acquired	150,270	150,270
Unrealized loss on other real estate	27,200	31,280
Unrealized loss on available for sale securities	620,781	116,157
Other	24,452	-
Total deferred tax assets	4,952,849	4,316,147
Deferred tax liabilities:		
FHLB stock dividends	188,612	188,612
Purchase accounting adjustments	1,906,923	1,228,067
Depreciation	685,239	761,389
Prepaid expenses	301,330	151,939
Other	-	40,224
Total deferred tax liabilities	3,082,104	2,370,231
Net deferred tax (liability) asset	$1,870,745	$1,945,916

As of December 31 and June 30, 2013, the Company had approximately $433,000 and $440,000, respectively, of federal and state net operating loss carryforwards, which were acquired in the July 2009 acquisition of Southern Bank of Commerce. The amount reported is net of the IRC Sec. 382 limitation, or state equivalent, related to utilization of net operating loss carryforwards of acquired corporations. Unless otherwise utilized, the net operating losses will begin to expire in 2027.

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax is shown below:

	For the three-month period ended December 31, 2013	For the three-month period ended December 31, 2012	For the six-month period ended December 31, 2013	For the six-month period ended December 31, 2012
Tax at statutory rate	$1,181,934	$1,205,574	$2,401,353	$2,474,162
Increase (reduction) in taxes resulting from:				
Nontaxable municipal income	(133,668)	(128,391)	(262,244)	(252,659)
State tax, net of Federal benefit	71,280	84,480	152,460	176,880
Cash surrender value of Bank-owned life insurance	(44,088)	(43,764)	(87,918)	(86,543)
Tax credit benefits	(81,424)	(56,654)	(162,849)	(113,310)
Other, net	(36,587)	3,641	(59,909)	7,242
Actual provision	$957,447	$1,064,886	$1,980,894	$2,205,772

Tax credit benefits are recognized under the flow-through method of accounting for investments in tax credits.

Note 9: 401(k) Retirement Plan

The Company's 401(k) Retirement Plan (the Plan) covers substantially all employees who are at least 21 years of age and who have completed one year of service. The Plan provides a safe harbor matching contribution of up to 4% of eligible compensation, and also made additional, discretionary profit-sharing contributions for fiscal 2013; for fiscal 2014, the Company has maintained the safe harbor matching contribution of 4%, and expects to continue to make additional, discretionary profit-sharing contributions. During the three- and six-month periods ended December 31, 2013, retirement plan expenses recognized were approximately $131,000 and $261,000, respectively, as compared to $116,000 and $228,000, respectively, for the same periods of the prior fiscal year.

Note 10: Corporate Obligated Floating Rate Trust Preferred Securities

Southern Missouri Statutory Trust I issued $7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") in March, 2004, with a liquidation value of $1,000 per share. The securities are due in 30 years, are now redeemable, and bear interest at a floating rate based on LIBOR. The securities represent undivided beneficial interests in the trust, which was established by the Company 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 from the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures of the Company. The Company has used its net proceeds for working capital and investment in its subsidiary.

In its October 2013 acquisition of Ozarks Legacy Community Financial, Inc. (OLCF), the Company assumed $3.1 million in floating rate junior subordinated debt securities. The securities had been issued in June 2005 by OLCF, bear interest at a floating rate based on LIBOR, and mature in 2035.

Note 11: Small Business Lending Fund

On July 21, 2011, as part of the Small Business Lending Fund (SBLF) of the United States Department of the Treasury (Treasury), the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (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 (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 Bank's level of Qualified Small Business Lending (QBSL), as defined in the Purchase Agreement. 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 was 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. The dividend rate for the quarter ended December 31, 2013, was one percent (1%). For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at one percent (1%), 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 nine percent (9%), including a quarterly lending incentive fee of one-half percent (0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, the holder of the SBLF Preferred Stock will have the right to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, 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 Fixed Rate Cumulative Perpetual Preferred Stock, Series A issued in 2008 to the Treasury in the Troubled Asset Relief Program (TARP), plus the accrued dividends owed on those preferred shares. As part of the 2008 TARP transaction, the Company issued a ten-year warrant to Treasury to purchase 114,326 shares of the Company's common stock at an exercise price of $12.53 per share. The Company has not repurchased the warrant, which is still held by Treasury.

Note 12: Fair Value Measurements

ASC Topic 820, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities

Recurring Measurements. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31 and June 30, 2013:

		Fair Value Measurements at December 31, 2013, Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSEs)	$24,992,400	$-	$24,992,400	$-
State and political subdivisions	45,564,611	-	45,564,611	-
Other securities	3,424,951	-	3,303,951	121,000
Mortgage-backed GSE residential	37,192,508	-	37,192,508	-
Mortgage-backed: other U.S. government agencies	2,123,612	-	2,123,612	-

		Fair Value Measurements at June 30, 2013, Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

U.S. government sponsored enterprises (GSEs)	$22,407,885	$-	$22,407,885	$-
State and political subdivisions	39,323,307	-	39,323,307	-
Other securities	1,558,979	-	1,485,979	73,000
Mortgage-backed GSE residential	14,310,544	-	14,310,544	-
Mortgage-backed: other U.S. government agencies	2,403,511	-	2,403,511	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended December 31, 2013.

Available-for-sale Securities. When quoted market prices are available in an active market, securities are classified within Level 1. The Company does not have Level 1 securities. If quoted market prices are not available, then fair values are estimated using pricing models, or quoted prices of securities with similar characteristics. For these securities, our Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Level 2 securities include U.S. Government-sponsored enterprises, state and political subdivisions, other securities, mortgage-backed GSE residential securities

and mortgage-backed other U.S. Government agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents a reconciliation of activity for available for sale securities measured at fair value based on significant unobservable (Level 3) information for the three-month periods ended December 31, 2013 and 2012:

	Three months ended	
	December 31, 2013	December 31, 2012
Available-for-sale securities, beginning of year	$91,000	$43,000
Total unrealized gain (loss) included in comprehensive income	30,000	15,000
Transfer from Level 2 to Level 3	-	-
Available-for-sale securities, end of period	$121,000	$58,000

	Six months ended	
	December 31, 2013	December 31, 2012
Available-for-sale securities, beginning of year	$73,000	$32,600
Total unrealized gain (loss) included in comprehensive income	48,000	25,400
Transfer from Level 2 to Level 3	-	-
Available-for-sale securities, end of period	$121,000	$58,000

Nonrecurring Measurements. The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fell at December 31 and June 30, 2013:

	Fair Value Measurements at December 31, 2013, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Impaired loans (collateral dependent)	$216,000	$-	$-	$216,000
Foreclosed and repossessed assets held for sale	3,053,000	-	-	3,053,000

	Fair Value Measurements at June 30, 2013, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Impaired loans (collateral dependent)	$378,000	$-	$-	$378,000
	3,075,000	-	-	3,075,000

Foreclosed and repossessed assets held for
sale

The following table presents gains and (losses) recognized on assets measured on a non-recurring basis for the three-month periods ended December 31, 2013 and 2012:

	For the six months ended	
	December 31, 2013	December 31, 2012
Impaired loans (collateral dependent)	$111,000	$(134,000)
Foreclosed and repossessed assets held for sale	8,000	(552,000)
Total gains (losses) on assets measured on a non-recurring basis	$119,000	$(686,000)

The following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of fair value hierarchy, the process used to develop the reported fair value process is described below.

Impaired Loans (Collateral Dependent). A collateral dependent loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a collateral dependent loan is considered impaired, the amount of reserve required is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material collateral dependent loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. In addition, management applies selling and other discounts to the underlying collateral value to determine the fair value. If an appraised value is not available, the fair value of the collateral dependent impaired loan is determined by an adjusted appraised value including unobservable cash flows.

On a quarterly basis, loans classified as special mention, substandard, doubtful, or loss are evaluated including the loan officer’s review of the collateral and its current condition, the Company’s knowledge of the current economic environment in the market where the collateral is located, and the Company’s recent experience with real estate in the area. The date of the appraisal is also considered in conjunction with the economic environment and any decline in the real estate market since the appraisal was obtained. For all loan types, updated appraisals are obtained if considered necessary. Of the Company’s $3.9 million (carrying value) in impaired loans (collateral-dependent and purchased credit-impaired) at December 31, 2013, the Company utilized a real estate appraisal performed in the past 12 months to serve as the primary basis of our valuation for impaired loans with a carrying value of approximately $233,000. Older real estate appraisals were available for impaired loans with a carrying value of approximately $2.9 million. The remaining $716,000 was secured by collateral such as closely-held stock, an assignment of notes receivable, accounts receivable, or inventory. In instances where the economic environment has worsened and/or the real estate market declined since the last appraisal, a higher distressed sale discount would be applied to the appraised value.

The Company records collateral dependent impaired loans based on nonrecurring Level 3 inputs. If a collateral dependent loan’s fair value, as estimated by the Company, is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a specific reserve as part of the allowance for loan losses.

Foreclosed and Repossessed Assets Held for Sale. Foreclosed and repossessed assets held for sale are valued at the time the loan is foreclosed upon or collateral is repossessed and the asset is transferred to foreclosed or repossessed assets held for sale. The value of the asset is based on third party or internal appraisals, less estimated costs to sell and appropriate discounts, if any. The appraisals are generally discounted based on current and expected market conditions that may impact the sale or value of the asset and management’s knowledge and experience with similar assets. Such discounts typically may be significant and result in a Level 3 classification of the inputs for determining fair value of these assets. Foreclosed and repossessed assets held for sale are continually evaluated for additional impairment and are adjusted accordingly if impairment is identified.

Unobservable (Level 3) Inputs. The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
Available-for-sale securities (pooled trust preferred security)	$ 121,000	Discounted cash flow	Discount rate Prepayment rate Projected defaults and deferrals (% of pool balance) Anticipated recoveries (% of pool balance)	n/a n/a n/a n/a	15.6% 1% annually 41.9% 1.5%
Impaired loans (collateral dependent)	216,000	Internal or third-party appraisal	Discount to reflect realizable value	n/a	33.0 %
Foreclosed and repossessed assets	3,053,000	Third party appraisal	Marketability discount	0.0 - 76.4 %	20.0 %

	Fair value at June 30, 2013	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
Available-for-sale securities (pooled trust preferred security)	$ 73,000	Discounted cash flow	Discount rate Prepayment rate Projected defaults and deferrals (% of pool balance) Anticipated recoveries (% of pool balance)	n/a n/a n/a n/a	18.6% 1% annually 42.0% 1.7%
Impaired loans (collateral dependent)	378,000	Internal or third-party appraisal	Discount to reflect realizable value	18.9 - 43.8 %	22.9 %
Foreclosed and repossessed assets	3,075,000	Third party appraisal	Marketability discount	0.0 - 66.7 %	14.6 %

Fair Value of Financial Instruments. The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fell at December 31 and June 30, 2013.

(dollars in thousands)	December 31, 2013			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$19,885	$19,885	$-	$-
Interest-bearing time deposits	980	-	980	-
Stock in FHLB	4,269	-	4,269	-
Stock in Federal Reserve Bank of St. Louis	1,004	-	1,004	-
Loans receivable, net	748,730	-	-	752,009
Accrued interest receivable	4,785	-	4,785	-
Financial liabilities				
Deposits	729,791	424,975	-	305,079
Securities sold under agreements to repurchase	21,801	-	21,801	-
Advances from FHLB	80,888	55,300	27,986	-
Accrued interest payable	904	-	904	-
Subordinated debt	9,714	-	-	8,448
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

(dollars in thousands)	June 30, 2013			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$12,789	$12,789	$-	$-
Interest-bearing time deposits	980	-	980	-
Stock in FHLB	2,007	-	2,007	-
Stock in Federal Reserve Bank of St. Louis	1,004	-	1,004	-
Loans receivable, net	647,166	-	-	652,904
Accrued interest receivable	3,970	-	3,970	-

Financial liabilities				
Deposits	632,379	359,796	-	273,260
Securities sold under agreements to repurchase	27,788	-	27,788	-
Advances from FHLB	24,500	-	27,040	-
Accrued interest payable	529	-	529	-
Subordinated debt	7,217	-	-	6,209
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents and interest-bearing time deposits are valued at their carrying amounts, which approximates book value. Stock in FHLB and the Federal Reserve Bank of St. Louis is valued at cost, which approximates fair value. Fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts of accrued interest approximate their fair values.

The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. Non-maturity deposits and securities sold under agreements are valued at their carrying value, which approximates fair value. Fair value of advances from the FHLB is estimated by discounting maturities using an estimate of the current market for similar instruments. The fair value of subordinated debt is estimated using rates currently available to the Company for debt with similar terms and maturities. The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 13: Business Combinations

On October 4, 2013, the Company acquired 100% of the outstanding stock of Ozarks Legacy Community Financial, Inc. (OLCF), and its subsidiary, the Bank of Thayer, headquartered in Thayer, Missouri. The Bank of Thayer was merged into the Company's existing bank subsidiary, Southern Bank, on that date. The Company acquired OLCF primarily for the purpose of conducting commercial banking activities in markets where it believes the Company's business model will perform well, and for the long-term value of its core deposit franchise. Through December 31, 2013, the Company incurred $688,000 of third-party acquisition-related costs. The expenses are included in noninterest expense in the Company's consolidated statement of income for the period ended December 31, 2013. The goodwill of $1,474,000 arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of the Company and OLCF. Total goodwill was assigned to the acquisition of the bank holding company.

The following table summarized the consideration paid for OLCF and its subsidiary, the Bank of Thayer and the amounts of assets acquired and liabilities assumed recognized at the acquisition date:

Fair Value of Consideration Transferred	
Cash	$6,279,694
Contingent consideration	-
Total consideration	$6,279,694
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and Cash equivalents	$2,234,980
Investment Securities	34,271,743
Loans	39,368,508
Premises and equipment	1,155,297
Identifiable intangible assets	1,432,645
Miscellaneous other assets	1,285,870
Deposits	(68,234,600)
Securities sold under agreements to repurchase	(1,099,675)
Advances from FHLB	(1,095,928)
Subordinated debt	(2,490,890)
Miscellaneous other liabilities	(2,022,076)
Liability arising from a contingency	-

Total identifiable net assets	4,805,874
Goodwill	$1,473,820

On November 7, 2013, the Company announced that it has entered into a definitive stock purchase agreement whereby it will acquire Citizens State Bankshares of Bald Knob, Inc. (Citizens), headquartered in Bald Knob, Arkansas, in an all-cash transaction valued at approximately $5.9 million, subject to certain adjustments for transaction expenses and Citizens' equity at closing. Citizens' wholly-owned bank subsidiary, Citizens State Bank, will be merged with and into Southern Bank immediately upon closing, which the Company now anticipates will occur in February, 2014. At December 31, 2013, Citizens held assets of $70.2 million, loans, net, of $11.6 million, and deposits of $62.3 million. The Company will recognize all acquisition-related costs as an expense. The Company's acquisition-related costs were $57,000 through December 31, 2013, and are reflected in legal and professional fees.

PART I: Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

SOUTHERN MISSOURI BANCORP, INC.

General

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Bank (Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank. The Bank's deposit accounts are generally insured up to a maximum of $250,000 by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2013, the Bank conducts its business through its home office located in Poplar Bluff, and 21 full service branch facilities in Poplar Bluff (3), Van Buren, Dexter, Kennett, Doniphan, Qulin, Sikeston, Matthews, Springfield, Thayer (2), West Plains, and Alton, Missouri, and Paragould, Jonesboro (2), Brookland, Batesville, and Searcy, Arkansas.

The significant accounting policies followed by Southern Missouri Bancorp, Inc. and its wholly-owned subsidiary for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The consolidated balance sheet of the Company as of June 30, 2013, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes. The following discussion reviews the Company's condensed consolidated financial condition at December 31, 2013, and results of operations for the three- and six-month periods ended December 31, 2013 and 2012.

Forward Looking Statements

This document contains statements about the Company and its subsidiaries which we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may 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," "in 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 intentions of management and are not guarantees of future performance. 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 this filing and in our other 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 our 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.

Non-GAAP Disclosures

The following financial measures contain information determined by methods other than in accordance with accounting principles generally accepted in the United States (commonly referred to as GAAP):

- net income available to common shareholders excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- return on average assets excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- return on average common equity excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- net interest margin excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

These measures indicate what net income available to common shareholders, return on average assets, return on average common equity, and net interest margin would have been without the impact of the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits resulting from the December 2010 acquisition of most of the assets and assumption of substantially all of the liabilities of the former First Southern Bank, Batesville, Arkansas (the Acquisition). Management believes that showing these measures excluding these items provides useful information by which to evaluate the Company’s operating performance on an ongoing basis from period to period.

These non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. Because not all companies use identical calculations, these non-GAAP financial measures might not be comparable to other similarly-titled measures as determined and disclosed by other companies. Reconciliations to GAAP of these non-GAAP financial measures presented are set forth below.

The following table presents reconciliation to GAAP of net income available to common stockholders excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the acquisition:

35

(dollars in thousands)	For the three months ended December 31, 2013	December 31, 2012	For the six months ended December 31, 2013	December 31, 2012
Net income available to common stockholders	$2,469	$2,431	$4,982	$4,826
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax	105	229	232	559
Net income available to common shareholders - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax	$2,364	$2,202	$4,750	$4,267

The following table presents reconciliation to GAAP of return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the acquisition:

	For the three months ended December 31, 2013	December 31, 2012	For the six months ended December 31, 2013	December 31, 2012
Return on average assets	1.09 %	1.32 %	1.18 %	1.36 %
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax	0.05 %	0.12 %	0.06 %	0.15 %
Return on average assets - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax	1.04 %	1.20 %	1.12 %	1.21 %

The following table presents reconciliation to GAAP of return on average common equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the acquisition:

	For the three months ended December 31, 2013	December 31, 2012	For the six months ended December 31, 2013	December 31, 2012
Return on average common equity	11.70 %	12.47 %	11.96 %	12.55 %
Less: impact of excluding accretion of fair	0.50 %	1.18 %	0.56 %	1.61 %

value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax				
Return on average common equity - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition, net of tax	11.20 %	11.29 %	11.40 %	10.94 %

The following table presents reconciliation to GAAP of net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the acquisition:

36

	For the three months ended		For the six months ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Net interest margin	3.83 %	4.17 %	3.87 %	4.23 %
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition	0.07 %	0.21 %	0.10 %	0.25 %
Net interest margin - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition	3.76 %	3.96 %	3.77 %	3.98 %

Critical Accounting Policies

Accounting principles generally accepted in the United States of America are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2013 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Company's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" beginning on page 55 in the Company's 2013 Annual Report.

Recent Events

On October 4, 2013, the Company completed its acquisition of Ozarks Legacy Community Financial, Inc., and its subsidiary, the Bank of Thayer (herein collectively, "Bank of Thayer"). The Company completed the conversion of data systems for the Bank of Thayer's operations in December, 2013.

On November 7, 2013, the Company announced the signing of a definitive stock purchase agreement whereby Citizens State Bankshares of Bald Knob, Inc., and its subsidiary, Citizens State Bank, Bald Knob, Arkansas (herein collectively, "Citizens State Bank"), will be acquired in an all-cash transaction. The acquired financial institution will be merged with and into Southern Bank, with the transaction expected to close in February, 2014.

Executive Summary

Our results of operations depend primarily on our net interest margin, which is directly impacted by the interest rate environment. The net interest margin represents interest income earned on interest-earning assets (primarily mortgage loans, commercial loans and the investment portfolio), less interest expense paid on interest-bearing liabilities (primarily certificates of deposit, savings, interest-bearing demand deposit accounts, repurchase agreements, and borrowed funds), as a percentage of average interest-earning assets. Net interest margin is directly impacted by the spread between long-term interest rates and short-term interest rates, as our interest-earning assets, particularly those with initial terms to maturity or repricing greater than one year, generally price off longer term rates while our

interest-bearing liabilities generally price off shorter term interest rates. This difference in longer term and shorter term interest rates is often referred to as the steepness of the yield curve. A steep yield curve – in which the difference in interest rates between short term and long term periods is relatively large – could be beneficial to our net interest income, as the interest rate spread between our interest-earning assets and interest-bearing liabilities would be larger. Conversely, a flat or flattening yield curve, in which the difference in rates between short term and long term periods is relatively small or shrinking, or an inverted yield curve, in which short term rates exceed long term rates, could have an adverse impact on our net interest income, as our interest rate spread could decrease.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, government policies and actions of regulatory authorities.

During the first six months of fiscal 2014, we grew our balance sheet by $153.8 million. Asset growth was attributable primarily to the October acquisition of the Bank of Thayer, which accounted for $74.9 million in asset growth, as well as organic loan growth. In total, net loans receivable increased $101.6 million (of which $39.4 million were the result of the Bank of Thayer acquisition), and available for sale securities increased $33.3 million (the Bank of Thayer acquisition included $34.3 million in securities balances). Cash and cash equivalents increased $7.1 million, fixed assets increased $2.3 million, intangible assets increased $2.6 million, and other assets increased $3.6 million. Deposits increased $97.4 million (the Bank of Thayer acquisition provided $68.2 million in deposits), and securities sold under agreements to repurchase decreased $6.0 million. Advances from the Federal Home Loan Bank (FHLB) increased $56.4 million, primarily attributable to the use of overnight advances to manage the Company's daily funding position. The increase in loan balances, other than through acquisition, was primarily the result of growth in residential and commercial real estate loan balances. The increase in deposits, other than through acquisition, was primarily the result of increases in interest-bearing transaction accounts, certificates of deposit, and non-interest bearing transaction accounts

Net income for the first six months of fiscal 2014 was $5.1 million, roughly unchanged as compared to the same period of the prior fiscal year. After accounting for dividends on preferred stock of $100,000, net earnings available to common shareholders were $5.0 million in the six-month period ended December 31, 2013, an increase of 3.2% as compared to the same period of the prior fiscal year, when dividends on preferred stock were $245,000. Compared to the year-ago period, the Company's unchanged net income was the result of an increase in net interest income, an increase in noninterest income, and decreases in provisions for loan losses and taxes, partially offset by higher noninterest expense. Diluted net income available to common shareholders was $1.47 per share for the first six months of fiscal 2014, as compared to $1.43 per share for the same period of the prior fiscal year. The increase was primarily due to the higher net income available to common shareholders as a result of lower dividends paid on preferred shares, the result of a lower dividend rate due as calculated under the terms of the Securities Purchase Agreement for the SBLF Preferred Shares. For the first six months of fiscal 2014, net interest income increased $954,000, or 6.5%; noninterest income increased $768,000, or 35.3%; provision for loan losses decreased $278,000, or 26.0%; provision for income taxes decreased $225,000, or 10.2%; and noninterest expense increased $2.2 million, or 25.8%, as compared to the same period of the prior fiscal year. For more information see "Results of Operations."

Interest rates during the first six months of fiscal 2014 remained relatively low by historical standards, but were up from the lower yields seen in the first six months of calendar 2013. Rates were little changed on short-term securities and increased on medium- to longer-term securities. Our average yield on earning assets decreased, primarily due to reinvestment at relatively low market rates (see "Results of Operations: Comparison of the three- and six-month periods ended December 31, 2013 and 2012 – Net Interest Income"). The yield curve steepened, and remained steep relative to recent historic norms. A steep curve is generally beneficial to the Company. In December 2008, the Federal Reserve cut the targeted Federal Funds rate to a range of 0.00% to 0.25%, and in March 2009, it detailed its plan to purchase long-term mortgage-backed securities, agency debt, and long-term Treasuries. A second securities purchase program focused on US Treasuries. A third program sought to lower real estate borrowing costs through purchases of mortgage-backed securities, and extending the average life of its securities portfolio. For 2013, the FOMC extended its quantitative easing by making purchases of approximately $85 billion per month in longer-term Treasuries and additional agency mortgage-backed securities. In December 2013, the FOMC announced a $10 billion per month reduction in those purchases, and provided guidance that further, measured reductions were likely. It has also indicated that it anticipates continuing its extraordinarily low short-term rate policy beyond the point when the unemployment rate would decline to 6.5% or less, so long as inflation expectations remained below 2.5%. In this rate environment, our net interest margin declined when comparing the first six months of fiscal 2014 to the same period of the prior fiscal year; however, some of the decline was attributable to fair value accounting for the December 2010 acquisition of most of the assets and assumption of substantially all of the liabilities of the former First Southern Bank, Batesville, Arkansas (the Acquisition), whereby the Company acquired loans at a discount. Net interest income

resulting from the accretion of that discount (and a smaller premium on acquired time deposits) declined in the first six months of fiscal 2014 to $366,000, as compared to $895,000 in the first six months of fiscal 2013. The decrease of $529,000 equates to a 17 basis point decrease in the net interest margin. Our core net interest margin, excluding this income, decreased to 3.77% in the current six-month period, as compared to 3.98% in the prior year's six-month period, primarily as a result of lower market rates. The Company expects that as the acquired loan portfolio continues to pay down, the positive impact on net interest income of discount accretion resulting from the Acquisition will continue to be reduced.

The Company's net income is also affected by the level of its noninterest income and noninterest expenses. Non-interest income generally consists primarily of deposit account service charges, bank card network income, loan-related fees, increases in the cash value of bank-owned life insurance, gains on sales of loans, and other general operating income. Noninterest expenses consist primarily of compensation and employee benefits, occupancy-related expenses, deposit insurance assessments, professional fees, advertising, postage and office expenses, insurance, bank card network expenses, the amortization of intangible assets, and other general operating expenses. During the six-month period ended December 31, 2013, noninterest income increased $768,000, or 35.3%, as compared to the same period of the prior fiscal year, attributable to realized gains on AFS securities, increased deposit account service charges and fees, higher bank card network interchange revenues, higher gains on secondary market loan sales, and loan origination fees. The increased deposit account service charges, network interchange revenues, and gains on secondary market loan sales were due, in part, to the October acquisition of the Bank of Thayer. Noninterest expense for the six-month period ended December 31, 2013, was $10.8 million, an increase of $2.2 million, or 25.8%, as compared to the same period of the prior fiscal year. The increase was primarily attributable to higher legal and professional fees, employee compensation and benefits, occupancy expenses, advertising, telecommunications, bank card interchange expense, internet banking charges, and additional amortization of a core deposit intangible resulting from the acquisition of the Bank of Thayer. Merger-related charges, for both the Bank of Thayer and the pending acquisition of the Citizens State Bank, Bald Knob, Arkansas, totaled $745,000 during the six-month period ended December 31, 2013. Additionally, the continuing operation of the acquired franchise contributed to increased non-interest expense in most categories.

We expect, over time, to continue to grow our assets modestly through the origination and occasional purchase of loans, and purchases of investment securities. The primary funding for this asset growth is expected to come from retail deposits, short- and long-term FHLB borrowings, and, as needed, brokered certificates of deposit. We have grown and intend to continue to grow deposits by offering desirable deposit products for our current customers and by attracting new depository relationships. We will also continue to explore strategic expansion opportunities in market areas that we believe will be attractive to our business model.

Comparison of Financial Condition at December 31 and June 30, 2013

The Company's total assets increased by $153.8 million, or 19.3%, to $950.2 million at December 31, 2013, as compared to $796.4 million at June 30, 2013. Balance sheet growth was primarily due to growth in loan and available-for-sale securities balances, some of which was attributable to the October acquisition of the Bank of Thayer, which accounted for approximately $74.9 million in asset growth. Balance sheet growth was funded primarily with Federal Home Loan Bank (FHLB) advances and increases in deposit balances.

Available-for-sale investment balances increased by $33.3 million, or 41.6%, to $113.3 million at December 31, 2013, as compared to $80.0 million at June 30, 2013. The increase was primarily attributable to the October acquisition of the Bank of Thayer, which included $34.3 million in securities balances. The increase consisted of investments in mortgage-backed securities and municipal bonds. Cash equivalents and time deposits increased $7.1 million, or 51.5%, as compared to June 30, 2013.

Loans, net of the allowance for loan losses, increased $101.6 million, or 15.7%, to $748.7 million at December 31, 2013, as compared to $647.2 million at June 30, 2013. The increase was primarily attributable to organic growth, while the October acquisition of the Bank of Thayer included $39.4 million in loans, at fair value. The increase consisted primarily of residential real estate and commercial real estate loans. The increase in residential real estate loans was split roughly equally between 1-to-4 family and multi-family collateral.

Deposit balances increased $97.4 million, or 15.4%, to $729.8 million at December 31, 2013, as compared to $632.4 million at June 30, 2013. The increase was primarily attributable to the October acquisition of the Bank of Thayer,

which included $68.2 million in deposits, at fair value, and organic growth. The increase consisted of interest-bearing checking, certificates of deposit, noninterest-bearing checking accounts, money market deposit accounts, and savings accounts.

FHLB advances increased $56.4 million, or 230.2%, to $80.9 million at December 31, 2013, as compared to $24.5 million at June 30, 2013. The increase was attributable primarily to the use of overnight borrowings to fund asset growth. The Company has been more willing to utilize overnight borrowings as a result of the pending acquisition of Citizens State Bank, as liquidity expected from that transaction may be utilized to repay short-term borrowings. Securities sold under agreements to repurchase totaled $21.8 million at December 31, 2013, as compared to $27.8

million at June 30, 2013, a decrease of 21.5%. At both dates, the full balance of repurchase agreements was due to local small business and government counterparties. The Company has encouraged these counterparties to migrate to a swept deposit product that places their funds in other FDIC-insured depositories, while providing funding to our institution under a reciprocal arrangement, in order to improve the Company's liquidity.

Total stockholders' equity increased $3.2 million, or 3.1%, to $105.0 million at December 31, 2013, as compared to $101.8 million at June 30, 2013. The increase was due primarily to the retention of net income, partially offset by cash dividends paid on common and preferred stock, and by a decrease in accumulated other comprehensive loss, as the market value of the available-for-sale investment portfolio declined, net of tax, as a result of a general increase in market interest rates.

Average Balance Sheet, Interest, and Average Yields and Rates for the Three- and Six-Month Periods Ended December 31, 2013 and 2012

The tables below present certain information regarding our financial condition and net interest income for the three- and six-month periods ended December 31, 2013 and 2012. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Yields on tax-exempt obligations were not computed on a tax equivalent basis.

	Three-month period ended December 31, 2013			Three-month period ended December 31, 2012		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$558,854,898	$7,168,420	5.13	$456,785,414	$6,516,053	5.71
Other loans (1)	178,647,475	2,343,761	5.25	160,709,817	2,214,314	5.51
Total net loans	737,502,373	9,512,181	5.16	617,495,231	8,730,367	5.66
Mortgage-backed securities	40,912,599	213,742	2.09	16,885,040	79,632	1.89
Investment securities (2)	83,705,462	509,437	2.43	60,580,814	376,663	2.49
Other interest earning assets	6,895,682	2,931	0.17	8,350,093	11,106	0.53
Total interest earning assets (1)	869,016,116	10,238,291	4.71	703,311,178	9,197,768	5.23
Other noninterest earning assets (3)	55,903,908	-		50,470,424	-	
Total assets	$924,920,024	10,238,291		$753,781,602	9,197,768	
Interest bearing liabilities:						
Savings accounts	$90,152,161	74,275	0.33	$84,010,408	115,195	0.55
NOW accounts	236,169,559	488,156	0.83	195,119,391	528,091	1.08
Money market deposit accounts	22,356,206	42,215	0.76	18,481,273	24,183	0.52
Certificates of deposit	306,187,086	901,013	1.18	230,290,581	829,253	1.44
Total interest bearing deposits	654,865,012	1,505,659	0.92	527,901,653	1,496,722	1.13
Borrowings:						
Securities sold under agreements to repurchase	23,477,788	31,122	0.53	26,857,779	54,165	0.81
FHLB advances	73,949,729	285,554	1.54	37,918,424	258,742	2.73
Subordinated debt	9,387,774	85,146	3.63	7,217,000	57,646	3.20
Total interest bearing liabilities	761,680,303	1,907,481	1.00	599,894,856	1,867,275	1.25
Noninterest bearing demand deposits	56,739,183	-		55,518,509	-	
Other noninterest bearing liabilities	2,102,051	-		358,056	-	

Total liabilities	820,521,537	1,907,481			655,771,421	1,867,275				
Stockholders' equity	104,398,487	-			98,010,181	-				
Total liabilities and stockholders' equity	$924,920,024	1,907,481			$753,781,602	1,867,275				
Net interest income		$8,330,810				$7,330,493				
Interest rate spread (4)			3.71	%			3.98	%		
Net interest margin (5)			3.83	%			4.17	%		
Ratio of average interest-earning assets to average interest-bearing liabilities	114.09	%			117.24	%				

(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.
(2) Includes FHLB and Federal Reserve Bank of St. Louis membership stock and related cash dividends.
(3) Includes average balances for fixed assets and BOLI of $20.1 million and $16.6 million, respectively, for the three-month period ended December 31, 2013, as compared to $16.1 million and $14.4 million, respectively, for the same period of the prior fiscal year.
(4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average interest-earning assets.

	Six-month period ended December 31, 2013			Six-month period ended December 31, 2012		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$526,440,087	$13,613,462	5.17	$444,974,394	$13,018,400	5.85
Other loans (1)	174,058,841	4,563,389	5.24	165,270,586	4,565,901	5.53
Total net loans	700,498,928	18,176,851	5.19	610,244,980	17,584,301	5.76
Mortgage-backed securities	29,503,325	301,450	2.04	17,663,855	205,395	2.33
Investment securities (2)	76,166,145	918,811	2.41	58,592,975	739,366	2.52
Other interest earning assets	6,452,618	5,912	0.18	10,129,223	30,355	0.60
Total interest earning assets (1)	812,621,016	19,403,024	4.78	696,631,033	18,559,417	5.33
Other noninterest earning assets (3)	52,061,241	-		47,713,907	-	
Total assets	$864,682,257	19,403,024		$744,344,940	18,559,417	
Interest bearing liabilities:						
Savings accounts	86,699,541	146,329	0.34	84,665,514	233,912	0.55
NOW accounts	222,461,135	957,751	0.86	192,381,734	1,110,279	1.15
Money market deposit accounts	22,206,533	82,255	0.74	18,449,772	49,792	0.54
Certificates of deposit	290,730,599	1,767,836	1.22	228,834,209	1,682,441	1.47
Total interest bearing deposits	622,097,808	2,954,171	0.95	524,331,229	3,076,424	1.17
Borrowings:						
Securities sold under agreements to repurchase	23,172,920	62,679	0.54	25,712,512	102,467	0.80
FHLB advances	55,347,582	541,470	1.96	36,023,669	513,454	2.85
Subordinated debt	8,302,387	140,851	3.39	7,217,000	116,772	3.24
Total interest bearing liabilities	708,920,697	3,699,171	1.04	593,284,410	3,809,117	1.28
Noninterest bearing demand deposits	22,618,988	-		53,816,103	-	
Other noninterest bearing liabilities	27,071,123	-		336,284	-	
Total liabilities	758,610,808	3,699,171		647,436,797	3,809,117	
Stockholders' equity	106,071,449	-		96,908,143	-	
Total liabilities and stockholders' equity	$864,682,257	3,699,171		$744,344,940	3,809,117	
Net interest income		$15,703,853			$14,750,300	
Interest rate spread (4)			3.74 %			4.05 %
Net interest margin (5)			3.86 %			4.23 %

Ratio of average interest-earning assets to average interest-bearing liabilities	114.63	%	117.42	%

(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.
(2) Includes FHLB and Federal Reserve Bank of St. Louis membership stock and related cash dividends.
(3) Includes average balances for fixed assets and BOLI of $19.1 million and $16.6 million, respectively, for the six-month period ended December 31, 2013, as compared to $13.5 million and $16.1 million, respectively, for the same period of the prior fiscal year.
(4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average interest-earning assets.

Rate/Volume Analysis

The following tables set forth the effects of changing rates and volumes on the Company's net interest income for the three- and six-month periods ended December 31, 2013. Information is provided with respect to (i) effects on interest income and expense attributable to changes in volume (changes in volume multiplied by the prior rate), (ii) effects on interest income and expense attributable to change in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

	Three-month period ended December 31, 2013 Compared to three-month period ended December 31, 2012, Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:				
Loans receivable (1)	$(772)	$1,698	$(144)	$782
Mortgage-backed securities	8	114	12	134
Investment securities (2)	(9)	144	(3)	132
Other interest-earning deposits	(8)	(2)	2	(8)
Total net change in income on interest-earning assets	(781)	1,954	(133)	1,040
Interest-bearing liabilities:				
Deposits	(307)	397	(81)	9
Securities sold under agreements to repurchase	(19)	(7)	3	(23)
Subordinated debt	8	17	2	27
FHLB advances	(113)	246	(106)	27
Total net change in expense on interest-bearing liabilities	(431)	653	(182)	40
Net change in net interest income	$(350)	$1,301	$49	$1,000

	Six-month period ended December 31, 2013 Compared to six-month period ended December 31, 2012, Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:				
Loans receivable (1)	$(1,739)	$2,599	$(268)	$592
Mortgage-backed securities	(26)	138	(16)	96
Investment securities (2)	(32)	221	(9)	180
Other interest-earning deposits	(21)	(11)	8	(24)
Total net change in income on interest-earning assets	(1,818)	2,947	(285)	844
Interest-bearing liabilities:				
Deposits	(636)	644	(130)	(122)
Securities sold under				(40)

agreements to repurchase	(33)	(10)	3	24
Subordinated debt	5	18	1	28
FHLB advances	(160)	275	(87)	
Total net change in expense on interest-bearing liabilities	(824)	927	(213)	(110)
Net change in net interest income	$(994)	$2,020	$(72)	$954

(1) Does not include interest on loans placed on nonaccrual status.
(2) Does not include dividends earned on equity securities.

43

Results of Operations – Comparison of the three- and six-month periods ended December 31, 2013 and 2012

General. Net income for the three- and six-month periods ended December 31, 2013, was $2.5 million and $5.1 million, respectively, increases of $38,000, or 1.5%, and $11,000, or 0.2%, respectively, as compared to the same periods of the prior fiscal year After preferred dividends of $50,000 and $100,000, respectively, paid in the three- and six-month periods ended December 31, 2013, net income available to common shareholders was $2.5 million and $5.0 million, respectively, increases of $38,000, or 1.6%, and $156,000, or 3.2%, respectively, as compared to the $2.4 million and $4.8 million, respectively, in net income available to common shareholders, after preferred dividends of $50,000 and $245,000, respectively, paid in the same periods of the prior fiscal year.

For the three-month period ended December 31, 2013, basic and fully-diluted net income per share available to common shareholders was $0.75 and $0.73, respectively, increases of $0.01, or 1.4%, as compared to the same periods of the prior fiscal year. Our annualized return on average assets for the three-month period ended December 31, 2013, was 1.09%, as compared to 1.32% for the same period of the prior fiscal year. For the three-month period ended December 31, 2013, return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition was 1.04%, as compared to 1.20% for the same period of the prior fiscal year. Our return on average common stockholders' equity for the three-month period ended December 31, 2013, was 11.7%, as compared to 12.5% in the same period of the prior fiscal year.

For the six-month period ended December 31, 2013, basic and fully-diluted net income per share available to common shareholders was $1.51 and $1.47, respectively, increases of $0.04, or 2.7% and 2.8%, respectively, as compared to the same period of the prior fiscal year. Our annualized return on average assets for the six-month period ended December 31, 2013, was 1.18%, as compared to 1.36% for the same period of the prior fiscal year. For the six-month period ended December 31, 2013, return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition was 1.12%, as compared to 1.21% for the same period of the prior fiscal year. Our return on average common stockholders' equity for the six-month period ended December 31, 2013, was 12.0%, as compared to 12.6% in the same period of the prior fiscal year.

Net Interest Income. Net interest income for the three- and six-month periods ended December 31, 2013, was $8.3 million and $15.7 million, respectively, increases of $1.0 million, or 13.6%, and $954,000, or 6.5%, respectively, as compared to the same periods of the prior fiscal year. Net interest income attributable to the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition was $168,000 and $372,000, respectively, in the current three- and six-month periods, as compared to $366,000 and $895,000, respectively, in the same periods of the prior fiscal year.

Our net interest margin for the three- and six-month periods ended December 31, 2013, determined by dividing annualized net interest income by total average interest-earning assets, was 3.83% and 3.86%, respectively, as compared to 4.17% and 4.23%, respectively, in the same periods of the prior fiscal year. Our net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition was 3.76% and 3.77%, respectively, for the three- and six-month periods ended December 31, 2013, as compared to 3.96% and 3.98%, respectively, for the same periods of the prior fiscal year. Our average net interest rate spread for the three- and six-month periods ended December 31, 2013, was 3.71% and 3.74%, respectively, as compared to 3.98% and 4.05%, respectively, for the same periods of the prior fiscal year.

For the three-month period ended December 31, 2013, the 27 basis point decline in the net interest rate spread, compared to the same period a year ago, resulted from a 52 basis point decrease in the average yield on interest-earning assets, partially offset by a 25 basis point decrease in the average cost of interest-bearing liabilities.

The decline in net interest spread was attributable primarily to a decrease in loan and investment yields that was not matched by a decline in our cost of funds, and also due to the reduction in net interest income generated from accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition. Our growth initiatives, including the acquisition of the Bank of Thayer, resulted in an increase of $165.7 million, or 23.6%, in the average balance of interest-earning assets, when comparing the three-month period ended December 31, 2013, with the same period of the prior fiscal year.

For the six-month period ended December 31, 2013, the 31 basis point decline in the net interest rate spread, compared to the same period a year ago, resulted from a 55 basis point decrease in the average yield on interest-earning assets, partially offset by a 24 basis point decrease in the average cost of interest-bearing liabilities. The decline in net interest spread was attributable primarily to a decrease in loan and investment yields that was not matched by a decline in our cost of funds, and also due to the reduction in net interest income generated from accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition. Our growth initiatives, including the acquisition of the Bank of Thayer, resulted in an increase of $116.0 million, or 16.7%, in the average balance of interest-earning assets, when comparing the six-month period ended December 31, 2013, with the same period of the prior fiscal year.

Interest Income. Total interest income for the three- and six-month periods ended December 31, 2013, was $10.2 million and $19.4 million, increases of $1.0 million, or 11.3%, and $843,000, or 4.5%, as compared to the same periods of the prior fiscal year. The increases were attributed to 23.6% and 16.7% increases, respectively, in the average balance of interest-earning assets, partially offset by 52 and 55 basis point declines, respectively, in the average yield earned on interest-earning assets, as compared to the same periods of the prior fiscal year. Yields on the Company's loan and investment securities portfolios declined with market rates.

Interest Expense. Total interest expense for the three-month period ended December 31, 2013 was $1.9 million, an increase of $40,000, or 2.2%, as compared to the same period of the prior fiscal year, attributable to the $161.8 million, or 27.0%, increase in the average balance of interest-bearing liabilities, partially offset by the 25 basis point decline in the average cost of interest-bearing liabilities, as compared to the same period of the prior fiscal year. For the six-month period ended December 31, 2013, total interest expense was $3.7 million, a decrease of $110,000, or 2.9%, as compared to the same period of the prior fiscal year, attributable to the 24 basis point decline in the average cost of interest bearing liabilities, partially offset by the $115.6 million, or 19.5%, increase in the average balance of interest-bearing liabilities. For both periods, the growth in average balances was attributed to our growth initiatives, including the acquisition of the Bank of Thayer, while the decline in the average cost of interest-bearing liabilities was attributed to a general decline in rates offered on deposit products, as well as a higher percentage of funding obtained through relatively low-costing overnight advances from the FHLB.

Provisions for Loan Losses. Provisions for loan losses for the three- and six-month period ended December 31, 2013, were $295,000 and $794,000, respectively, as compared to $462,000 and $1.1 million, respectively, for the same periods of the prior fiscal year. The decrease in provisioning was attributed primarily to the low level of net charge-offs and relatively low classified and delinquent loan balances, partially offset by an increase in loan balances. For the three- and six-month periods ended December 31, 2013, provisioning represented an annualized charge of 0.16% and 0.23%, respectively, of average loan balances, while annualized net charge offs were immaterial and 0.03%, respectively. During the same periods of the prior fiscal year, provisioning represented an annualized charge of 0.30% and 0.35%, respectively, and annualized net charge offs were 0.40% and 0.21%, respectively. Although we believe that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary as the loan portfolio grows, as economic conditions remain relatively weak, or as future conditions could differ from the current operating environment. Even though we use the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. (See "Critical Accounting Policies", "Allowance for Loan Loss Activity" and "Nonperforming Assets").

Noninterest Income. Noninterest income for the three- and six-month periods ended December 31, 2013, was $1.7 million and $2.9 million, respectively, increases of $548,000, or 49.0%, and $768,000, or 35.3%, as compared to the same periods of the prior fiscal year. The increases were attributable in part to gains realized on the sale of available-for-sale (AFS) securities, as well as due to increased deposit account service charges and fees, higher gains on secondary market loan sales, increased collection of loan fees, and higher bank card network interchange revenues. The increases in deposit account service charges and fees, gains on secondary market loan sales, and bank

card network interchange revenues were attributable, in part, to the October acquisition of the Bank of Thayer.

Noninterest Expense. Noninterest expense for the three- and six-month periods ended December 31, 2013, was $6.2 million and $10.8 million, increases of $1.8 million, or 40.2%, and $2.2 million, or 25.8%, as compared to the same periods of the prior fiscal year. The increases were attributable in part to merger-related legal, data processing, and contract termination charges totaling $620,000 and $745,000, respectively, in the three- and six-month periods ended December 31, 2013. In total, the increase was attributable to higher legal and professional fees, employee compensation and benefits, occupancy expenses, advertising, telecommunications, bank card interchange expense, internet banking charges, and additional amortization of a core deposit intangible resulting from the acquisition of the

Bank of Thayer. For the three- and six-month periods ended December 31, 2013, our efficiency ratio, determined by dividing total noninterest expense by the sum of net interest income and noninterest income (excluding gains realized on AFS securities), was 63.0% and 58.2%, respectively, as compared to 52.6% and 50.7%, respectively, for the same periods of the prior fiscal year. The deterioration resulted from increases of 40.2% and 25.8%, respectively, in noninterest expense, partially offset by combined 17.0% and 19.5% increases, respectively, in net interest income and noninterest income, and was attributable primarily to merger-related charges and the decreased accretion of fair value discount on loans resulting from the Acquisition. As the Company continues to grow its balance sheet, management expects non-interest expense will continue to increase due to compensation, expenses related to expansion, and inflation.

Income Taxes. Provisions for income taxes for the three- and six-month periods ended December 31, 2013, were $957,000 and $2.0 million, respectively, decreases of $107,000, or 10.1%, and $225,000, or 10.2%, as compared to the same periods of the prior fiscal year. The effective tax rate for the three- and six-month periods ended December 31, 2013, was 27.5% and 28.0%, respectively, as compared to 30.0% and 30.3%, respectively, during the same periods of the prior fiscal year. The decline was attributed primarily to additional tax-advantaged investments by the Company.

Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management's analysis of the loan portfolio, the amount of non-performing and classified loans, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the three- and six-month periods ended December 31, 2013 and 2012:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Balance, beginning of period	$8,794,820	$8,080,838	$8,385,980	$7,492,054
Loans charged off:				
Residential real estate	(8,976)	(189,370)	(23,062)	(203,242)
Construction	-	-	-	-
Commercial business	-	(416,843)	(13,266)	(417,071)
Commercial real estate	(8,156)	-	(69,457)	(8,589)
Consumer	(9,130)	(26,223)	(17,066)	(29,466)
Gross charged off loans	(26,262)	(632,436)	(122,851)	(658,368)
Recoveries of loans previously charged off:				
Residential real estate	13,338	112	14,090	224
Construction	-	-	-	-
Commercial business	1,095	3,887	1,828	4,462
Commercial real estate	341	4,414	686	6,698
Consumer	6,802	1,369	10,881	2,425
Gross recoveries of charged off loans	21,576	9,782	27,485	13,809
Net charge offs	(4,686)	(622,654)	(95,366)	(644,559)
Provision charged to expense	294,770	462,017	794,290	1,072,706
Balance, end of period	$9,084,904	$7,920,201	$9,084,904	$7,920,201

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased $699,000 to $9.1 million at December 31, 2013, from $8.4 million at June 30, 2013. The increase was deemed appropriate in order to bring the allowance for loan losses to a level that reflects management's estimate of the incurred loss in the Company's loan portfolio at December 31, 2013.

At December 31, 2013, the Company had loans of $6.0 million, or .79% of total loans, adversely classified ($6.0 million classified “substandard”; none classified “doubtful”; and none classified “loss”), as compared to loans of $5.5 million, or 0.84% of total loans, adversely classified ($5.5 million classified “substandard”; none classified “doubtful”; and none classified “loss”) at June 30, 2013, and $5.0 million, or 0.80% of total loans, adversely classified ($5.0 million classified “substandard”; none classified “doubtful”; and none classified “loss”) at December 31, 2012. Classified loans were generally comprised of loans secured by commercial and agricultural real estate loans, while a smaller amount of commercial operating loans, residential real estate loans and consumer loans were also classified. All loans were classified due to concerns as to the borrowers’ ability to continue to generate sufficient cash flows to service the debt. Of our classified loans, the Company had ceased recognition of interest on loans with a carrying value of $1.6 million at December 31, 2013. The Company’s investment in one pooled trust preferred security (Trapeza CDO IV, Ltd., class C2, see “Nonperforming Assets”) was also treated as a non-accrual asset.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge offs, and recoveries for the previous five years for each loan category. The Company’s allowance methodology considers the most recent twelve-month period’s average net charge offs and uses this information as one of the primary factors for evaluation of allowance adequacy. Average net charge offs are calculated as net charge offs by portfolio type for the period as a percentage of the average balance of respective portfolio type over the same period.

The following table sets forth the Company’s historical net charge offs as of December 31, 2013, and June 30, 2013:

Portfolio segment	December 31, 2013 Net charge offs – 12-month historical		June 30, 2013 Net charge offs – 12-month historical	
Real estate loans:				
Residential	0.03	%	0.11	%
Construction	0.15	%	0.00	%
Commercial	0.03	%	0.19	%
Consumer loans	0.24	%	0.22	%
Commercial loans	0.05	%	0.39	%

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in the financial condition of individual borrowers; changes in local, regional, and national economic conditions; the Company’s historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. Qualitative factors are reviewed quarterly and may be adjusted as necessary to reflect improving or declining trends. At December 31, 2013, these qualitative factors included:

· Changes in lending policies
· National, regional, and local economic conditions
· Changes in mix and volume of portfolio
· Experience, ability, and depth of lending management and staff
· Entry to new markets
· Levels and trends of delinquent, nonaccrual, special mention and
· Classified loans
· Concentrations of credit

· Changes in collateral values
· Agricultural economic conditions
· Regulatory risk

The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor applied at interim period December 31, 2013		Qualitative factor applied at fiscal year ended June 30, 2013	
Real estate loans:				
Conventional	0.75	%	0.67	%
Construction	1.71	%	1.22	%
Commercial	1.33	%	1.29	%
Consumer loans	1.38	%	1.30	%
Commercial loans	1.34	%	1.30	%

At December 31, 2013, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $7.8 million, as compared to $6.2 million at June 30, 2013. The relatively small changes in qualitative factors was attributed to stable credit quality and low levels of chargeoffs and classified assets, partially offset by strong loan growth.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio and potential changes in market conditions, our level of nonperforming assets and resulting charge offs may fluctuate. Higher levels of net charge offs requiring additional provisions for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Nonperforming Assets

The ratio of nonperforming assets to total assets and nonperforming loans to net loans receivable is another measure of asset quality. Nonperforming assets of the Company include nonaccruing loans, accruing loans delinquent/past maturity 90 days or more, and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. The table below summarizes changes in the Company's level of nonperforming assets over selected time periods:

	December 31, 2013	June 30, 2013	December 31, 2012
Nonaccruing loans:			
Residential real estate	$386,639	$413,924	$602,735
Construction	-	-	100,351
Commercial real estate	351,132	156,856	323,199
Consumer	45,891	24,699	11,183
Commercial business	848,320	841,924	1,153,143
Total	1,631,982	1,437,403	2,190,611
Loans 90 days past due accruing interest:			
Residential real estate	-	-	293
Commercial real estate	-	-	-
Consumer	-	-	526
Commercial business	-	-	17,012
Total	-	-	17,831
Total nonperforming loans	1,631,982	1,437,403	2,208,442
Nonperforming investments	125,000	125,000	125,000
Foreclosed assets held for sale:			
Real estate owned	3,004,385	3,029,530	3,461,720
Other nonperforming assets	48,261	45,803	51,937
Total nonperforming assets	$4,809,628	$4,637,736	$5,847,099

At December 31, 2013, troubled debt restructurings (TDRs) totaled $5.5 million, of which $716,000 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $4.8 million in TDRs have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans. In general, these loans were subject to classification as TDRs at December 31, 2013, on the basis of guidance under ASU No. 2011-02, which indicates that the Company may not consider the borrower's effective borrowing rate on the old debt immediately before the restructuring in determining whether a concession has been granted. At June 30, 2013, troubled debt restructurings (TDRs) totaled $5.6 million, of which $766,000 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $4.9 million in TDRs had complied with the modified terms for a reasonable period of time and were therefore considered by the Company to be accrual status loans.

At December 31, 2013, nonperforming assets totaled $4.8 million, as compared to $4.6 million at June 30, 2013, and $5.8 million at December 31, 2012. The increase in nonperforming assets from fiscal year end was attributed primarily to foreclosed real estate (primarily commercial properties) obtained in the October acquisition of the Bank of Thayer, and was partially offset by sales of legacy foreclosed real estate. For one relationship, which accounted for

$2.1 million in foreclosed real estate balances at June 30, 2013, the sale of certain properties reduced the carrying amount to $1.7 million at December 31, 2013, with that remaining balance comprised entirely of commercial real estate. Nonperforming investments consist of the Company's investment in Trapeza CDO IV, Ltd., class C2.

Liquidity Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loans purchases, deposit withdrawals and operating expenses. Our primary sources of funds include deposit growth, securities sold under agreements to repurchase, FHLB advances, brokered deposits, amortization and prepayment of loan principal and interest, investment maturities and sales, and funds provided by our operations. While the scheduled loan repayments and maturing investments are relatively predictable, deposit flows, FHLB advance redemptions, and loan and security prepayment rates are significantly influenced by factors outside of the Bank's control, including interest rates, general and local economic conditions and competition in the marketplace. The Bank relies on FHLB advances and brokered deposits as additional sources for funding cash or liquidity needs.

The Company uses its liquid resources principally to satisfy its ongoing cash requirements, which include funding loan commitments, funding maturing certificates of deposit and deposit withdrawals, maintaining liquidity, funding maturing or called FHLB advances, purchasing investments, and meeting operating expenses.

At December 31, 2013, the Company had outstanding commitments to extend credit of $111.9 million in mortgage and non-mortgage loans (including $79.6 million in unused lines of credit). These commitments and approvals are expected to be funded through existing cash balances, cash flow from normal operations and, if needed, advances from the FHLB or the Federal Reserve's discount window. At December 31, 2013, the Bank had pledged its residential real estate loan portfolio and a significant portion of its commercial real estate portfolio with the FHLB for available credit of approximately $234 million, of which $80.8 million had been advanced. The Bank has the ability to pledge several of its other loan portfolios, including home equity and commercial business loans, which could provide additional collateral for additional borrowings; in total, FHLB borrowings are generally limited to 35% of Bank assets, or $332.6 million, subject to available collateral. Also, at December 31, 2013, the Bank had pledged a total of $101.3 million in loans secured by farmland and agricultural production loans to the Federal Reserve, providing access to $67.8 million in primary credit borrowings from the Federal Reserve's discount window. Management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Regulatory Capital

The Company and Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory—and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Furthermore, the Company and Bank's regulators could require adjustments to regulatory capital not reflected in the condensed consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average total assets (as defined). Management believes, as of December 31, 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

On July 2, 2013, the Board of Governors of the Federal Reserve System announced its approval of the final rule to implement the Basel III regulatory reforms, among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The approved rule includes a new minimum ratio of common equity Tier 1 (CET1) capital of 4.5%, raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, and includes a minimum leverage ratio of 4.0% for all banking institutions. Additionally, the rule creates a capital conservation buffer of 2.5% of risk-weighted assets, and prohibits banking organizations from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative, if the capital conservation buffer is not maintained. The phase-in of the enhanced capital requirements for banking organizations such as the Company and

the Bank will begin January 1, 2015. Other changes include revised risk-weighting of some assets, stricter limitations on mortgage servicing assets and deferred tax assets, and replacement of the ratings-based approach to risk weight securities.

As of December 31, 2013, the most recent notification from the Federal Reserve categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The tables below summarize the Company and Bank's actual and required regulatory capital:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)						
Consolidated	$120,828	16.84 %	$57,415	8.00 %	n/a	n/a
Southern Bank	104,743	14.78 %	56,686	8.00 %	70,857	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	112,100	15.62 %	28,708	4.00 %	n/a	n/a
Southern Bank	95,877	13.53 %	28,343	4.00 %	42,514	6.00 %
Tier I Capital (to Average Assets)						
Consolidated	112,100	12.17 %	36,850	4.00 %	n/a	n/a
Southern Bank	95,877	10.50 %	36,528	4.00 %	45,660	5.00 %

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)						
Consolidated	$115,972	18.70 %	$49,608	8.00 %	n/a	n/a
Southern Bank	92,618	15.10 %	49,059	8.00 %	61,324	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	108,208	17.45 %	24,804	4.00 %	n/a	n/a
Southern Bank	84,938	13.85 %	24,529	4.00 %	36,794	6.00 %
Tier I Capital (to Average Assets)						
Consolidated	108,208	13.73 %	31,524	4.00 %	n/a	n/a
Southern Bank	84,938	10.87 %	31,250	4.00 %	39,063	5.00 %

50

PART I: Item 3: Quantitative and Qualitative Disclosures About Market Risk
SOUTHERN MISSOURI BANCORP, INC.

Asset and Liability Management and Market Risk

The goal of the Company's asset/liability management strategy is to manage the interest rate sensitivity of both interest-earning assets and interest-bearing liabilities in order to maximize net interest income without exposing the Bank to an excessive level of interest rate risk. The Company employs various strategies intended to manage the potential effect that changing interest rates may have on future operating results. The primary asset/liability management strategy has been to focus on matching the anticipated re-pricing intervals of interest-earning assets and interest-bearing liabilities. At times, however, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Company may determine to increase its interest rate risk position somewhat in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Bank has utilized longer term FHLB advances (with maturities up to ten years), subject to early redemptions and fixed terms. Other elements of the Company's current asset/liability strategy include (i) increasing originations of commercial business, commercial real estate, agricultural operating lines, and agricultural real estate loans, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk; (ii) actively soliciting less rate-sensitive deposits, including aggressive use of the Company's "rewards checking" product, and (iii) offering competitively-priced money market accounts and CDs with maturities of up to five years. The degree to which each segment of the strategy is achieved will affect profitability and exposure to interest rate risk.

The Company continues to originate long-term, fixed-rate residential loans. During the first six months of fiscal year 2013, fixed rate 1- to 4-family residential loan production totaled $16.5 million, as compared to $5.6 million during the same period of the prior fiscal year. At December 31, 2013, the fixed rate residential loan portfolio was $102.8 million with a weighted average maturity of 174 months, as compared to $95.0 million at December 31, 2012, with a weighted average maturity of 183 months. The Company originated $20.3 million in adjustable-rate 1- to 4-family residential loans during the six-month period ended December 31, 2013, as compared to $20.1 million during the same period of the prior fiscal year. At December 31, 2013, fixed rate loans with remaining maturities in excess of 10 years totaled $49.6 million, or 6.6% of net loans receivable, as compared to $61.9 million, or 10.0% of net loans receivable at December 31, 2012. The Company originated $51.9 million of fixed rate commercial and commercial real estate loans during the six-month period ended December 31, 2013, as compared to $58.6 million during the same period of the prior fiscal year. At December 31, 2013, the fixed rate commercial and commercial real estate loan portfolio was $293.3 million with a weighted average maturity of 41.7 months, compared to $250.7 million at December 31, 2012, with a weighted average maturity of 36 months. The Company originated $39.8 million in adjustable rate commercial and commercial real estate loans during the six-month period ended December 31, 2013, as compared to $43.6 million during the same period of the prior fiscal year. At December 31, 2013, adjustable-rate home equity lines of credit totaled $17.0 million, as compared to $15.5 million at December 31, 2012. At December 31, 2013, the Company's investment portfolio had an estimated modified duration of 4.5, as compared to 3.3 at December 31, 2012. Management continues to focus on customer retention, customer satisfaction, and offering new products to customers in order to increase the Company's amount of less rate-sensitive deposit accounts.

Interest Rate Sensitivity Analysis

The following table sets forth as of December 31, 2013, management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous and permanent increases, and 100, 200, and 300 basis point instantaneous and permanent decreases in market interest rates. Dollar amounts are expressed in thousands.

December 31, 2013

BP change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	$ Amount	$Change	% Change	NPV Ratio	Change
+300	$87,983	(17,911)	-17%	9.42%	-1.62%
+200	94,070	(11,823)	-11%	9.99%	-1.05%
+100	99,528	(6,365)	-6%	10.48%	-0.56%
NC	105,893	-	-	11.04%	-
-100	114,206	8,313	8%	11.80%	0.76%
-200	120,895	15,002	14%	12.41%	1.36%
-300	127,866	21,972	21%	13.04%	2.00%

June 30, 2013

BP change in Rates	Estimated Net Portfolio Value			NPV as % of PV of Assets	
	$ Amount	$Change	% Change	NPV Ratio	Change
+300	$93,468	$(12,328)	-12%	11.70%	-1.26%
+200	97,693	(8,104)	-8%	12.15%	-0.82%
+100	101,241	(4,555)	-4%	12.50%	-0.46%
NC	105,796	-	-	12.96%	-
-100	110,740	4,944	5%	13.49%	0.52%
-200	115.237	9,440	9%	13.96%	0.99%
-300	120,167	14,371	14%	14.47%	1.51%

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to seven years and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability policies. The Board's Asset/Liability Committee meets monthly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Board with respect to the Bank's asset and liability goals and strategies.

PART I: Item 4: Controls and Procedures
SOUTHERN MISSOURI BANCORP, INC.

An evaluation of Southern Missouri Bancorp's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the "Act")) as of December 31, 2013, was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and several other members of our senior management. The Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2013, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to management (including the Chief Executive and 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 control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosures 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 a 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.

PART II: Other Information
SOUTHERN MISSOURI BANCORP, INC.

Item 1: Legal Proceedings

In the opinion of management, the Company is not a party to any pending claims or lawsuits that are expected to have a material effect on the Company's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Company mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Company 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 Company's ordinary business, the Company is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Company.

Item 1a: Risk Factors

Effective December 10, 2013, pursuant to the Dodd-Frank Act, federal banking and securities regulators issued final rules to implement Section 619 of the Dodd-Frank Act (the "Volcker Rule"). Generally, subject to a transition period and certain exceptions, the Volcker Rule restricts insured depository institutions and their affiliated companies from engaging in short-term proprietary trading of certain securities, investing in funds with collateral comprised of less than 100% loans that are not registered with the Securities and Exchange Commission ("SEC") and from engaging in hedging activities that do not hedge a specific identified risk. After the transition period, the Volcker Rule prohibitions and restrictions will apply to banking entities unless an exception applies. We are analyzing the impact of the Volcker Rule on our investment portfolio and activities. The Volcker rule could impact our investment strategies or other activities, which could negatively affect our earnings.

There have been no other material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2013.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Program
10/1/2013 thru 10/31/2013	-	-	-	-
11/1/2013 thru 11/30/2013	-	-	-	-
12/1/2013 thru 12/31/2013	-	-	-	-
Total	-	-	-	-

Item 3: Defaults upon Senior Securities

Not applicable

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

None

Item 6: Exhibits

(a) Exhibits

3 (a)	Articles of Incorporation of the Registrant+		
3 (b)	Certificate of Designation for the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A++		
3 (c)	Bylaws of the Registrant+++		
4	Form of Stock Certificate of Southern Missouri Bancorp++++		
10	Material Contracts		
	(a)	Registrant's 2008 Equity Incentive Plan+++++	
	(b)	Registrant's 2003 Stock Option and Incentive Plan++++++	
	(c)	Registrant's 1994 Stock Option and Incentive Plan+++++++	
	(d)	Southern Missouri Savings Bank, FSB Management Recognition and Development Plan+++++++	
(e)	Employment Agreements		
	(i)	Greg A. Steffens*	
(f)	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 Robison*****	
	(ix)	David Tooley******	
(g)	Tax Sharing Agreement***		

31 Rule 13a-14(a) Certification

32 Section 1350 Certification

101 Attached as Exhibit 101 are the following financial statements from the Southern Missouri Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of cash flows and (iv) the notes to consolidated financial statements.

+	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 Current Report on Form 8-K filed on July 26, 2011.
+++	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 6, 2007.
++++	Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-2320) as filed with the SEC on January 3, 1994.
+++++	Field as an attachment to the Registrant's definitive proxy statement filed on September 19, 2008.
++++++	Filed as an attachment to the Registrant's definitive proxy statement filed on September 17, 2003.

+++++++ Filed as an attachment to the Registrant’s 1994 Annual Meeting Proxy Statement dated October 21, 1994.

++++++++ Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on November 2, 2012.

* 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 Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000.

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

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

****** Filed as an exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2011.

SIGNATURES

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

	SOUTHERN MISSOURI BANCORP, INC. Registrant
Date: February 14, 2014	/s/ Greg A. Steffens Greg A. Steffens President & Chief Executive Officer (Principal Executive Officer)
Date: February 14, 2014	/s/ Matthew T. Funke Matthew T. Funke Chief Financial Officer (Principal Financial and Accounting Officer)