SOUTHERN MISSOURI BANCORP INC
Form 10-Q
May 15, 2013

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 March 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 May 14, 2013
Common Stock, Par Value $.01 Shares	3,257,076

SOUTHERN MISSOURI BANCORP, INC.
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PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013, AND JUNE 30, 2012

	March 31, 2013 (unaudited)	June 30, 2012
Cash and cash equivalents	$40,822,926	$33,421,099
Interest-bearing time deposits	1,475,000	1,273,000
Available for sale securities	80,115,441	75,126,845
Stock in FHLB of Des Moines	2,018,200	2,018,200
Stock in Federal Reserve Bank of St. Louis	1,004,450	1,001,050
Loans receivable, net of allowance for loan losses of $8,108,857 and $7,492,054 at March 31, 2013 and June 30, 2012, respectively	617,206,603	583,464,521
Accrued interest receivable	3,078,144	3,694,344
Premises and equipment, net	16,377,550	11,347,064
Bank owned life insurance – cash surrender value	16,337,816	15,957,500
Intangible assets, net	1,144,709	1,457,557
Prepaid expenses and other assets	13,884,927	10,427,788
Total assets	$793,465,766	$739,188,968
Deposits	$630,896,666	$584,813,624
Securities sold under agreements to repurchase	27,399,609	25,642,407
Advances from FHLB of Des Moines	24,500,000	24,500,000
Accounts payable and other liabilities	2,229,124	1,662,207
Accrued interest payable	555,507	625,659
Subordinated debt	7,217,000	7,217,000
Total liabilities	692,797,906	644,460,897
Commitments and contingencies	-	-
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 20,000 shares issued and outstanding at March 31, 2013, and June 30, 2012	20,000,000	20,000,000
Common stock, $.01 par value; 8,000,000 shares authorized; 3,257,076 and 3,252,706 shares issued at March 31, 2013, and June 30, 2012, respectively	32,571	32,527
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	22,714,569	22,479,767
Retained earnings	57,060,315	51,365,401
Treasury stock of 0 and 2,230 shares at March 31, 2013, June 30, 2012, respectively, at cost	-	(26,315)
Accumulated other comprehensive income	683,615	699,901
Total stockholders' equity	100,667,860	94,728,071
Total liabilities and stockholders' equity	$793,465,766	$739,188,968

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
INTEREST INCOME:				
Loans	$8,276,133	$9,077,557	$25,860,434	$27,890,260
Investment securities	399,090	379,900	1,138,456	1,122,083
Mortgage-backed securities	64,093	224,338	269,488	745,727
Other interest-earning assets	17,168	73,414	47,523	154,336
Total interest income	8,756,484	9,755,209	27,315,901	29,912,406
INTEREST EXPENSE:				
Deposits	1,510,424	2,011,104	4,586,848	6,457,288
Securities sold under agreements to repurchase	57,662	64,958	160,129	184,002
Advances from FHLB of Des Moines	241,262	310,193	754,716	988,975
Subordinated debt	55,096	59,593	171,868	173,360
Total interest expense	1,864,444	2,445,848	5,673,561	7,803,625
NET INTEREST INCOME	6,892,040	7,309,361	21,642,340	22,108,781
PROVISION FOR LOAN LOSSES	228,375	215,338	1,301,081	1,077,454
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,663,665	7,094,023	20,341,259	21,031,327
NONINTEREST INCOME:				
Deposit account charges and related fees	485,764	379,825	1,359,871	1,128,017
Bank credit transaction fees	288,643	278,595	876,952	805,977
Loan late charges	64,169	53,560	168,430	169,993
Other loan fees	77,853	22,593	223,432	121,901
Net realized gains on sale of loans	61,790	89,834	204,646	232,866
Earnings on bank owned life insurance	125,778	71,179	380,316	214,130
Other income	39,815	58,933	108,046	297,211
Total noninterest income	1,143,812	954,519	3,321,693	2,970,095
NONINTEREST EXPENSE:				
Compensation and benefits	2,591,590	2,418,341	7,576,164	6,944,735
Occupancy and equipment, net (inc data)	698,218	679,075	2,071,452	1,880,776
Deposit insurance premiums	93,774	94,126	280,441	277,261
Legal and professional fees	130,466	145,362	345,718	338,436
Advertising	82,899	89,403	226,250	256,621
Postage and office supplies	119,945	115,941	346,495	348,819
Intangible amortization	104,283	104,283	312,849	312,849
Bank card network fees	135,987	136,041	422,750	398,859
Other operating expense	483,356	1,083,821	1,436,928	1,774,771
Total noninterest expense	4,440,518	4,866,393	13,019,047	12,533,127
INCOME BEFORE INCOME TAXES	3,366,959	3,182,149	10,643,905	11,468,295
INCOME TAXES	900,849	1,006,107	3,106,621	3,767,421
NET INCOME	$2,466,110	$2,176,042	$7,537,284	$7,700,874
	-	-	-	94,365

Less: charge for early redemption of preferred stock issued at discount				
Less: effective dividend on preferred shares	50,000	50,000	295,115	307,746
Net income available to common shareholders	$2,416,110	$2,126,042	$7,242,169	$7,298,763
Basic earnings per common share	$0.74	$0.65	$2.23	$2.76
Diluted earnings per common share	$0.71	$0.64	$2.14	$2.67
Dividends per common share	$0.15	$0.12	$0.45	$0.36

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Net income	$2,466,110	$2,176,042	$7,537,284	$7,700,874
Other comprehensive income:				
Unrealized gains (losses) on securities available-for-sale	(398,614)	(334,212)	(41,094)	135,040
Unrealized gains (losses) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	15,160	(33)	15,244	(72,876)
Tax benefit (expense)	141,878	123,671	9,565	(23,001)
Total other comprehensive income (loss)	(241,576)	(210,574)	(16,285)	39,163
Comprehensive income	$2,224,534	$1,965,468	$7,520,999	$7,740,037

See Notes to Condensed Consolidated Financial Statements

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

	Nine months ended March 31,	
	2013	2012
Cash Flows From Operating Activities:		
Net income	$7,537,284	$7,700,874
Items not requiring (providing) cash:		
Depreciation	826,834	682,285
Loss on disposal of fixed assets	20,875	-
MRP and SOP expense	160,643	17,687
Gain on sale of foreclosed assets	(17,654)	(124,089)
Amortization of intangible assets	312,849	312,849
Increase in cash surrender value of bank owned life insurance	(380,316)	(214,130)
Provision for loan losses	1,301,081	1,077,454
Net amortization of premiums and discounts on securities	439,342	243,518
Deferred income taxes	297,875	(1,259,816)
Originations of loans held for sale	(4,956,029)	-
Proceeds from sales of loans held for sale	5,116,239	-
Changes in:		
Accrued interest receivable	616,200	858,017
Prepaid expenses and other assets	(2,231,143)	565,825
Accounts payable and other liabilities	1,148,957	(3,985,529)
Accrued interest payable	(70,152)	(132,248)
Net cash provided by operating activities	10,122,885	5,742,697
Cash flows from investing activities:		
Net (increase) decrease in loans	(38,850,550)	9,149,712
Net change in interest-bearing deposits	(202,000)	(580,000)
Proceeds from maturities of available for sale securities	27,954,781	29,425,788
Net redemptions of Federal Home Loan Bank stock	-	317,000
Net purchases of Federal Reserve Bank of Saint Louis stock	(3,400)	(282,300)
Purchases of available-for-sale securities	(33,408,568)	(39,872,944)
Purchases of premises and equipment	(5,904,695)	(3,947,550)
Investments in state & federal tax credits	-	(686,109)
Proceeds from sale of fixed assets	26,500	-
Purchases of bank owned life insurance	-	(7,500,000)
Proceeds from sale of foreclosed assets	1,568,483	687,024
Net cash used in investing activities	(48,819,449)	(13,289,379)
Cash flows from financing activities:		
Net increase in demand deposits and savings accounts	19,422,508	58,584,161
Net increase (decrease) in certificates of deposits	26,660,534	(19,436,357)
Net increase in securities sold under agreements to repurchase	1,757,202	1,286,660
Repayments of Federal Home Loan Bank advances	-	(9,000,000)
Redemption of preferred stock	-	(9,550,000)

Proceeds from issuance of preferred stock	-	19,973,208
Proceeds from issuance of common stock	66,555	19,914,349
Dividends paid on preferred stock	(361,553)	(318,760)
Dividends paid on common stock	(1,480,818)	(893,871)
Exercise of stock options	33,963	15,230
Net cash provided by financing activities	46,098,391	60,574,620
Increase in cash and cash equivalents	7,401,827	53,027,938
Cash and cash equivalents at beginning of period	33,421,099	33,895,706
Cash and cash equivalents at end of period	$40,822,926	$86,923,644
Supplemental disclosures of Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$3,463,950	$549,502
Conversion of foreclosed real estate to loans	68,400	565,550
Conversion of loans to repossessed assets	251,627	138,476
Cash paid during the period for:		
Interest (net of interest credited)	$2,000,909	$2,367,008
Income taxes	1,541,084	5,601,570

See Notes to Condensed Consolidated Financial Statements

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

Note 1: Basis of Presentation

The accompanying unaudited interim condensed 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, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three- and nine-month periods ended March 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, 2012, Form 10-K, which was filed with the SEC.

The accompanying condensed 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 condensed 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 $37,745,000 and $31,048,000 at March 31, 2013, and June 30, 2012, 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 income, 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 income. 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 collectibility 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 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 10 to 40 years for premises, five 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) and Management Recognition Plan (MRP) 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. With limited exceptions, the amount of compensation cost related to a stock option award 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. Stock-based compensation has been recognized for all stock options granted or modified after July 1, 2005.

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.

Treasury Stock. Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Reclassification. Certain amounts included in the consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In July 2012, the Financial Accounting Standards board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity would not be required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines, based on qualitative assessment, that it is more likely than not the indefinite-lived intangible asset is impaired. The ASU is effective for annual and interim impairment tests performed for fiscal years

beginning after September 15 2012. The Company adopted the ASU on July 1, 2012, and adoption did not have a significant impact on the Company's financial statements.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in this ASU address implementation issues about the scope of ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The objective of the ASU is to clarify the scope of the offsetting disclosures and address any unintended consequences. The ASU is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is evaluating the impact of the ASU, but does not expect a material impact on the financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Comprehensive Income. The amendments in this ASU are intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. The ASU is effective for public entities for reporting periods beginning after December 15, 2012. The Company adopted the ASU on January 1, 2013, and adoption did not have a significant impact on the Company's 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:

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$22,490,364	$38,573	$(27,447)	$22,501,490
State and political subdivisions	37,089,743	1,864,141	(109,722)	38,844,162
Other securities	2,639,959	79,038	(1,129,936)	1,589,061
Mortgage-backed: GSE residential	14,297,172	443,575	(98,698)	14,642,049
Mortgage-backed: other U.S. government agencies	2,541,421	-	(2,742)	2,538,679
Total investments and mortgage-backed securities	$79,058,659	$2,425,327	$(1,368,545)	$80,115,441

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$18,046,654	$53,348	$(384)	$18,099,618
State and political subdivisions	34,656,284	1,823,625	(98,656)	36,381,253
Other securities	2,646,719	14,310	(1,267,772)	1,393,257
Mortgage-backed: GSE residential	15,657,921	565,989	(7,861)	16,216,049
Mortgage-backed: other U.S. government agencies	3,036,637	31	-	3,036,668
Total investments and mortgage-backed securities	$74,044,215	$2,457,303	$(1,374,673)	$75,126,845

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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.

	March 31, 2013	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$306,770	$306,838
After one year but less than five years	12,849,501	12,994,116
After five years but less than ten years	24,354,887	24,775,618
After ten years	24,708,908	24,858,141
Total investment securities	62,220,066	62,934,713
Mortgage-backed securities	16,838,593	17,180,728
Total investments and mortgage-backed securities	$79,058,659	$80,115,441

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 March 31, 2013, and June 30, 2012:

	March 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$9,474,106	$27,447	$-	$-	$9,474,106	$27,447
State and political subdivision	2,694,955	65,329	2,027,765	44,393	4,722,720	109,722
Other securities	-	-	429,040	1,129,936	429,040	1,129,936
Mortgage-backed: GSE residential	4,725,904	98,698	-	-	4,725,904	98,698
Mortgage-backed: other U.S. government agencies	2,538,679	2,742	-	-	2,538,679	2,742
Total investments and mortgage-backed securities	$19,433,644	$194,216	$2,456,805	$1,174,329	$21,890,449	$1,368,545

	June 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$999,616	$384	$-	$-	$999,616	$384
State and political subdivisions	5,525,825	98,656	-	-	5,525,825	98,656

Other securities	-	-	282,639	1,267,772	282,639	1,267,772
Mortgage-backed: GSE residential	1,943,968	7,861	-	-	1,943,968	7,861
Total investments and mortgage-backed securities	$8,469,409	$106,901	$282,639	$1,267,772	$8,752,048	$1,374,673

Other securities. At March 31, 2013, there were four pooled trust preferred securities with an estimated fair value of $429,000 and unrealized losses of $1.1 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.

The March 31, 2013, cash flow analysis for three of these securities showed 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 and recovery rates, amounts of prepayments, 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 by banks of $15 billion or more in assets of all fixed rate securities during 2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those by issuers with strong capital positions and with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 29% to 36% on currently deferred issuers within the next two years; no net new deferrals for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter.

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 March 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 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 three to five 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 March 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 second quarter and the twelve months ended June 30, 2009. At March 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 on similar inputs and factors as those described above. Assumptions for this security included prepayments by banks of $15 billion or more in assets of all fixed rate securities during 2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 55% on currently deferred issuers within the next two years; no net new deferrals 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 two years. 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 March 31, 2013.

The Company does not believe any other individual unrealized loss as of March 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, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses, but are 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 nine-month periods ended March 31, 2013 and 2012.

	Accumulated Credit Losses, Nine-Month Period Ended March 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:

	March 31, 2013	June 30, 2012
Real Estate Loans:		
Residential	$229,773,348	$201,012,698
Construction	28,149,575	40,181,979
Commercial	236,790,038	200,957,429
Consumer loans	27,737,657	28,985,905
Commercial loans	113,748,365	137,004,222
	636,198,983	608,142,233
Loans in process	(11,039,558)	(17,370,404)
Deferred loan fees, net	156,035	184,746
Allowance for loan losses	(8,108,857)	(7,492,054)
Total loans	$617,206,603	$583,464,521

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.

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 March 31, 2013, construction loans outstanding included 21 loans, totaling $2.3 million, for which a modification had been agreed to. At June 30, 2012, construction loans outstanding included 18 loans, totaling $11.0 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.

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 generally located in the Company's primary market 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 of 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.

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.

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 March 31, 2013, and June 30, 2012, and activity in the allowance for loan losses for the three- and nine-month periods ended March 31, 2013 and 2012:

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	At period end for the nine months ended March 31, 2013						
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	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	351,869	(47,926)	959,838	63,069	(25,769)	-	1,301,081
Losses charged off	(239,270)	-	(417,071)	(21,005)	(29,466)	-	(706,812)
Recoveries	337	-	4,918	8,782	8,497	-	22,534
Balance, end of period	$1,748,282	$195,243	$3,533,523	$534,443	$2,097,366	$-	$8,108,857
Ending Balance: individually evaluated for impairment	$-	$-	$100,000	$-	$-	$-	$100,000
Ending Balance: collectively evaluated for impairment	$1,748,282	$195,243	$3,433,523	$534,443	$1,539,877	$-	$7,451,368
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-	$557,489	$-	$557,489
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$161,878	$-	$-	$-	$161,878
Ending Balance: collectively evaluated for impairment	$228,094,698	$17,110,017	$234,985,032	$27,737,657	$112,483,065	$-	$620,410,469
Ending Balance: loans acquired	$1,678,650	$-	$1,643,128	$-	$1,265,300	$-	$4,587,078

with deteriorated credit quality

For the three months ended March 31, 2013	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,722,583	$ 152,256	$ 3,388,656	$526,386	$ 2,130,320	$ -	$7,920,201
Provision charged to expense	61,615	42,987	144,410	18,389	(39,025)	-	228,375
Losses charged off	(36,028)	-	-	(12,416)	-	-	(48,444)
Recoveries	112	-	457	2,084	6,071	-	8,724
Balance, end of period	$1,748,282	$ 195,243	$ 3,533,523	$534,443	$ 2,097,366	$ -	$8,108,857

For the nine months ended March 31, 2012	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,618,285	$ 192,752	$ 2,671,482	$441,207	$ 1,514,725	$ -	$6,438,451
Provision charged to expense	139,665	(12,868)	144,844	213,176	592,636	-	1,077,454
Losses charged off	(91,369)	-	(24,824)	(137,002)	(33,625)	-	(286,820)
Recoveries	6,614	801	430	10,814	10,968	-	29,627
Balance, end of period	$1,673,195	$ 180,685	$ 2,791,932	$528,195	$ 2,084,704	$ -	$7,258,712
Ending Balance: individually evaluated for impairment	$-	$ -	$ 316,591	$-	$ 482,145	$ -	$798,736
Ending Balance: collectively evaluated for impairment	$1,673,195	$ 180,685	$ 2,333,611	$528,195	$ 1,589,697	$ -	$6,305,384
Ending Balance: loans acquired with deteriorated credit quality	$-	$ -	$ 141,730	$-	$ 12,862	$ -	$154,592

For three months ended March 31, 2012	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total

Allowance for loan losses:							
Balance, beginning of period	$1,838,114	$ 183,020	$ 2,650,831	$534,780	$ 1,839,846	$ -	$7,046,590
Provision charged to expense	(164,982)	(2,676)	141,102	(1,020)	242,914	-	215,338
Losses charged off	-	-	-	(9,235)	-	-	(9,235)
Recoveries	63	341	-	3,671	1,944	-	6,019
Balance, end of period	$1,673,195	$ 180,685	$ 2,791,932	$528,195	$ 2,084,704	$ -	$7,258,712

	June 30, 2012						
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, end of period	$1,635,346	$243,169	$2,985,838	$483,597	$2,144,104	$-	$7,492,054
Ending Balance: individually evaluated for impairment	$-	$-	$347,815	$-	$-	$-	$347,815
Ending Balance: collectively evaluated for impairment	$1,635,346	$243,169	$2,632,679	$483,597	$1,767,967	$-	$6,762,758
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$5,344	$-	$376,137	$-	$381,481
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$976,881	$-	$-	$-	$976,881
Ending Balance: collectively evaluated for impairment	$199,514,689	$22,811,575	$198,296,430	$28,985,905	$135,649,513	$-	$585,258,112
Ending Balance: loans acquired with deteriorated credit quality	$1,498,009	$-	$1,684,118	$-	$1,354,709	$-	$4,536,836

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.

During fiscal 2011, the Company changed its allowance methodology to consider, as the primary quantitative factor, average net charge offs over the most recent twelve-month period. The Company had previously considered average net charge offs over the most recent five-year period as the primary quantitative factor. The impact of the modification was minimal.

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 March 31, 2013, and June 30, 2012. 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:

	March 31, 2013				
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$228,981,019	$17,009,666	$232,705,600	$27,590,637	$112,050,013
Watch	1,888,213	-	1,550,715	43,632	57,742
Special Mention	-	-	-	-	-
Substandard	792,329	100,351	4,084,438	147,020	1,698,352
Doubtful	-	-	-	-	-
Total	$229,773,348	$17,110,017	$236,790,038	$27,737,657	$113,748,365

	June 30, 2012				
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$198,847,363	$22,811,575	$194,280,920	$28,967,594	$129,572,873
Watch	1,561,263	-	149,940	-	5,398,255
Special Mention	-	-	-	-	-
Substandard	604,072	-	6,526,569	18,311	2,033,094
Doubtful	-	-	-	-	-
Total	$201,012,698	$22,811,575	$200,957,429	$28,985,905	$137,004,222

The above amounts include purchased credit impaired loans. At March 31, 2013, these loans comprised $37,000 of credits rated “Pass”; $1.6 million of credits rated “Watch”; no credits rated “Special Mention”; $2.9 million of credits rated “Substandard”; and no credits rated “Doubtful”. At June 30, 2012, these loans comprised $1.5 million of credits rated “Pass”; no credits rated “Watch”; no credits rated “Special Mention”; $3.0 million of credits rated “Substandard”; and no credits 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 March 31, 2013, and June 30, 2012. 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:

	March 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	$2,430,534	$256,314	$111,120	$2,797,968	$226,975,380	$229,773,348	$-
Construction	475,215	-	100,351	575,566	16,534,451	17,110,017	-
Commercial	414,069	-	158,055	572,124	236,217,914	236,790,038	16,239
Consumer loans	111,537	4,384	45,028	160,949	27,576,708	27,737,657	-
Commercial loans	457,666	-	200,422	658,088	113,090,277	113,748,365	-
Total loans	$3,889,021	$260,698	$614,976	$4,764,695	$620,394,730	$625,159,425	$16,239

	June 30, 2012						
	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	$310,046	$66,586	$59,142	$435,774	$200,576,924	$201,012,698	$-
Construction	-	-	-	-	22,811,575	22,811,575	-

Commercial	176,642	41,187	796,794	1,014,623	199,942,806	200,957,429	-
Consumer loans	78,762	-	-	78,762	28,907,143	28,985,905	-
Commercial loans	694,044	-	80,000	774,044	136,230,178	137,004,222	-
Total loans	$1,259,494	$107,773	$935,936	$2,303,203	$588,468,626	$590,771,829	$-

The above amounts include purchased credit impaired loans. At March 31, 2013, these loans comprised $1.6 million credits 30-59 Days Past Due; no credits 60-89 Days Past Due; no credits Greater Than 90 Days Past Due; $1.6 million of Total Past Due credits; $3.0 million of credits Current; and $0 Loans > 90 Days & Accruing. At June 30, 2012, there were no purchased credit impaired loans that were past due.

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 March 31, 2013, and June 30, 2012. 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.

	March 31, 2013		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,678,650	$2,100,858	$-
Construction real estate	100,351	100,351	-
Commercial real estate	3,276,036	3,625,708	-
Consumer loans	-	-	-
Commercial loans	588,462	593,468	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	161,878	161,878	100,000
Consumer loans	-	-	-
Commercial loans	874,661	1,444,538	557,489
Total:			
Residential real estate	$1,678,650	$2,100,858	$-
Construction real estate	$100,351	$100,351	$-
Commercial real estate	$3,437,914	$3,787,586	$100,000
Consumer loans	$-	$-	$-
Commercial loans	$1,463,123	$2,038,006	$557,489

	June 30, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,531,881	$2,160,350	$-
Construction real estate	-	-	-
Commercial real estate	2,563,744	2,935,620	-
Consumer loans	-	-	-
Commercial loans	845,692	868,844	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	982,884	1,014,082	353,159

Consumer loans	-	-	-
Commercial loans	930,123	1,500,000	376,137
Total:			
Residential real estate	$1,531,881	$2,160,350	$-
Construction real estate	$-	$-	$-
Commercial real estate	$3,546,628	$3,949,702	$353,159
Consumer loans	$-	$-	$-
Commercial loans	$1,775,815	$2,368,844	$376,137

The above amounts include purchased credit impaired loans. At March 31, 2013, these loans comprised $3.7 million of impaired loans without a specific valuation allowance; $875,000 of loans with a specific valuation allowance; and $4.6 million of total impaired loans. At June 30, 2012, these loans comprised $3.6 million of impaired loans without a specific valuation allowance; $935,000 of loans with a specific valuation allowance; and $4.5 million of total impaired loans.

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

	For the three-month period ended March 31, 2013	
(dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,680	$43
Construction Real Estate	-	-
Commercial Real Estate	1,809	51
Consumer Loans	-	-
Commercial Loans	1,283	22
Total Loans	$4,933	$116

	For the three-month period ended March 31, 2012	
(dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,864	$75
Construction Real Estate	-	-
Commercial Real Estate	2,735	135
Consumer Loans	-	-
Commercial Loans	1,906	552
Total Loans	$6,505	$762

	For the nine-month period ended March 31, 2013	
(dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,611	$312
Construction Real Estate	-	-
Commercial Real Estate	2,233	149
Consumer Loans	-	-
Commercial Loans	1,308	71
Total Loans	$5,152	$532

	For the nine-month period ended March 31, 2012	
(dollars in thousands)	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$1,761	$233
Construction Real Estate	-	-
Commercial Real Estate	2,679	430

Consumer Loans	-	-
Commercial Loans	1,923	1,002
Total Loans	$6,363	$1,665

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

For the three- and nine-month periods ended March 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 $33,000 and $278,000, respectively, as compared to $642,000 and $1.3 million, respectively, for the three- and nine-month periods ended March 31, 2012.

The following table presents the Company's nonaccrual loans at March 31, 2013, and June 30, 2012. 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.

	March 31, 2013	June 30, 2012
Residential real estate	$212,719	$395,374
Construction real estate	100,351	-
Commercial real estate	319,932	976,881
Consumer loans	55,521	15,971
Commercial loans	1,131,416	1,010,123
Total loans	$1,819,939	$2,398,349

The above amounts include purchased credit impaired loans. At March 31, 2013, and June 30, 2012, these loans comprised $875,000 and $930,000 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 nine-month periods ended March 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			
	March 31, 2013		March 31, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	-	$-	1	$6,208
Construction real estate	-	-	-	-
Commercial real estate	-	-	2	668,724
Consumer loans	-	-	-	-
Commercial loans	-	-	-	-
Total	-	$-	3	$674,932

For the nine-month period ended

	March 31, 2013		March 31, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	-	$-	1	$6,208
Construction real estate	1	100,351	-	-
Commercial real estate	3	1,132,145	10	2,916,247
Consumer loans	-	-	-	-
Commercial loans	2	165,918	5	395,463
Total	6	$1,398,414	16	$3,317,918

At March 31, 2013, and June 30, 2012, the Company had $30,000 and $6,000, respectively, of residential real estate loans, $100,351 and $0, respectively, of construction loans, $3.0 million and $3.1 million, respectively, of commercial real estate loans, $0 and $0, respectively, of consumer loans, and $1.4 and $1.7 million, respectively, of commercial loans that were modified in TDRs and considered impaired. All loans classified as TDRs at March 31, 2013, and June 30, 2012, were so classified due to interest rate concessions.

Performing loans classified as troubled debt restructurings and outstanding at March 31, 2013, and June 30, 2012, segregated by class, are shown in the table below. Nonperforming TDRs are shown as nonaccrual loans.

	March 31, 2013		June 30, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	2	$30,477	2	$39,835
Construction real estate	-	-	-	-
Commercial real estate	12	3,018,435	10	2,290,986
Consumer loans	-	-	-	-
Commercial loans	4	400,873	6	807,386
Total	18	$3,449,785	18	$3,138,207

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 March 31, 2013, and June 30, 2012. The amounts of these loans at March 31, 2013, and June 30, 2012, are as follows:

	March 31, 2013	June 30, 2012
Real Estate Loans:		
Residential	$2,100,858	2,126,478
Construction	-	-
Commercial	1,992,800	2,087,192
Consumer loans	-	-
Commercial loans	1,840,183	1,947,738
Outstanding balance	$5,933,841	$6,161,408
Carrying amount, net of fair value adjustment of $1,346,763 and $1,624,572 at March 31, 2013 and June 30, 2012, respectively	$4,587,078	$4,536,836

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

	Three-month period ended March 31, 2013	Three-month period ended March 31, 2012
Balance at beginning of period	$913,266	$804,544
Additions	-	-
Accretion	(62,735)	(688,485)
Reclassification from nonaccretable difference	7,353	462,828
Disposals	-	-
Balance at end of period	$857,884	$578,887

	Nine-month period ended March 31, 2013	Nine-month period ended March 31, 2012
Balance at beginning of period	$489,356	$792,942
Additions	-	-
Accretion	(368,361)	(1,392,723)
Reclassification from nonaccretable difference	736,889	1,178,668
Disposals	-	-
Balance at end of period	$857,884	$578,887

During the nine-month periods ended March 31, 2013 and 2012, the Company increased the allowance for loan losses by a charge to the income statement of $181,000 and $120,000 respectively, related to these purchased credit impaired loans. During the same periods, allowance for loan losses of $5,000 and $0, respectively, was reversed.

Note 6: Deposits

Deposits are summarized as follows:

	March 31, 2013	June 30, 2012
Non-interest bearing accounts	$53,823,540	$54,812,645
NOW accounts	209,662,194	193,870,344
Money market deposit accounts	25,142,422	18,099,265
Savings accounts	84,293,821	86,717,214
Certificates	257,974,689	231,314,155
Total Deposit Accounts	$630,896,666	$584,813,623

Note 7: Earnings Per Share

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

	Three months ended March 31,	
	2013	2012
Net income	$2,466,110	$2,176,042
Dividend payable on preferred stock	50,000	50,000
Net income available to common shareholders	$2,416,110	$2,126,042
Average Common shares – outstanding basic	3,254,040	3,246,778
Stock options under treasury stock method	135,101	94,532
Average Common shares – outstanding diluted	3,389,141	3,341,310
Basic earnings per common share	$0.74	$0.65
Diluted earnings per common share	$0.71	$0.64

	Nine months ended March 31,	
	2013	2012
Net income	$7,537,284	$7,700,874
Charge for early redemption of preferred stock issued at discount	-	94,365

Dividend payable on preferred stock	295,115	307,746
Net income available to common shareholders	$7,242,169	$7,298,763
Average Common shares – outstanding basic	3,250,573	2,645,925
Stock options under treasury stock method	132,065	89,258
Average Common shares – outstanding diluted	3,382,638	2,735,183
Basic earnings per common share	$2.23	$2.76
Diluted earnings per common share	$2.14	$2.67

At March 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 2009. 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 nine-month period ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Income taxes				
Current	$339,136	$1,767,778	$2,808,745	$5,027,237
Deferred	561,713	(761,671)	297,876	(1,259,816)
Total income tax provision	$900,849	$1,006,107	$3,106,621	$3,767,421

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

	March 31, 2013	June 30, 2012
Deferred tax assets:		
Provision for losses on loans	$3,457,708	$3,247,995
Accrued compensation and benefits	189,481	171,113
Other-than-temporary impairment on available for sale securities	261,405	261,405
NOL carry forwards acquired	152,606	159,613
Unrealized loss on other real estate	18,700	47,600
Total deferred tax assets	4,079,900	3,887,726
Deferred tax liabilities:		
FHLB stock dividends	188,612	188,612
Purchase accounting adjustments	1,247,249	893,549
Depreciation	475,509	552,633
Prepaid expenses	202,612	123,704
Unrealized gain on available for sale securities	382,880	400,554
Other	203,648	69,083
Total deferred tax liabilities	2,700,511	2,228,135
Net deferred tax (liability) asset	$1,379,389	$1,659,591

As of March 31, 2013, and June 30, 2012, the Company had approximately $447,000 and $467,000, respectively, in 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		For the nine-month period ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Tax at statutory rate	$1,144,766	$1,081,931	$3,618,928	$3,899,220
Increase (reduction) in taxes				

resulting from:				
Nontaxable municipal income	(127,011)	(126,381)	(379,671)	(344,055)
State tax, net of Federal benefit	80,520	75,240	257,400	294,327
Cash surrender value of				
Bank-owned life insurance	(42,765)	(24,201)	(129,307)	(72,804)
Tax credit benefits	(114,222)	(29,976)	(227,533)	(89,926)
Other, net	(40,439)	29,495	(33,195)	80,659
Actual provision	$900,849	$1,006,107	$3,106,621	$3,767,421

Tax credit benefits in the amount of $114,000 and $228,000, respectively, were recognized in the three- and nine-month periods ended March 31, 2013, as compared to $30,000 and $90,000, respectively, recognized in the three- and nine-month periods ended March 31, 2012, under the flow-through method of accounting for investments in tax credits.

Note 9: 401(k) Retirement Plan

The Company established a tax-qualified ESOP in April 1994. During fiscal 2011, the plan was merged with the Company's 401(k) Retirement Plan (the Plan). The Plan covers substantially all employees who are at least 21 years of age and who have completed one year of service. In fiscal 2012, the Company converted the Plan to provide a safe harbor matching contribution of up to 4% of eligible compensation, and also made additional, discretionary profit-sharing

contributions for fiscal 2012; for fiscal 2013, 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 nine-month periods ended March 31, 2013, retirement plan expenses recognized were approximately $113,000 and $339,000, respectively, as compared to $100,000 and $305,000, respectively, for the three- and nine-month periods ended March 31, 2012.

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.

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 payable for the quarter ended March 31, 2013, was based on a rate of 1%, calculated based on qualifying small business lending totals reported as of September 30, 2012, at $225.3 million, as compared to an adjusted baseline total of $188.6 million. At March 31, 2013, qualifying small business lending totals were reported at $210.6 million. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QBSL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, 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 that are supported by little or no market activity and 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 March 31, 2013, and June 30, 2012:

		Fair Value Measurements at March 31, 2013, Using:		
	Fair Value	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)	$22,501,490	$-	$22,501,490	$-
State and political subdivisions	38,844,162	-	38,844,162	-
Other securities	1,589,061	-	1,509,061	80,000
FHLMC preferred stock	-	-	-	-
Mortgage-backed GSE residential	17,180,728	-	17,180,728	-

		Fair Value Measurements at June 30, 2012, Using:		
	Fair Value	Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs

		Identical Assets (Level 1)	(Level 2)	(Level 3)
U.S. government sponsored enterprises (GSEs)	$18,099,618	$-	$18,099,618	$-
State and political subdivisions	36,381,253	-	36,381,253	-
Other securities	1,393,257	-	1,360,657	32,600
FHLMC preferred stock	-	-	-	-
Mortgage-backed GSE residential	19,252,717	-	19,252,717	-

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 hierarch. There have been no significant changes in the valuation techniques during the period ended March 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 and mortgage-backed GSE residential securities. 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 nine-month periods ended March 31, 2013 and 2012:

	Three months ended	
	March 31, 2013	March 31, 2012
Available-for-sale securities, beginning of year	$58,000	$29,000
Total unrealized gain (loss) included in comprehensive income	22,000	15,800
Transfer from Level 2 to Level 3	-	-
Available-for-sale securities, end of period	$80,000	$44,800

	Nine-months ended	
	March 31, 2013	March 31, 2012
Available-for-sale securities, beginning of year	$32,600	$71,004
Total unrealized gain (loss) included in comprehensive income	47,400	(26,204)
Transfer from Level 2 to Level 3	-	-
Available-for-sale securities, end of period	$80,000	$44,800

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 March 31, 2013, and June 30, 2012:

	Fair Value Measurements at March 31, 2013, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$379,000	$-	$-	$379,000
Foreclosed and repossessed assets held for sale	3,532,000	-	-	3,532,000

	Fair Value Measurements at June 30, 2012, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$1,214,000	$-	$-	$1,214,000

Foreclosed and repossessed assets held for sale	1,435,000	-	-	1,435,000

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

	For the nine months ended	
	March 31, 2013	March 31, 2012
Impaired loans (collateral dependent)	$(181,000)	$(354,000)
Foreclosed and repossessed assets held for sale	(593,000)	(121,000)
Total gains (losses) on assets measured on a non-recurring basis	$(774,000)	$(475,000)

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 condensed consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarch. 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

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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 $4.7 million (carrying value) in impaired loans (collateral-dependent and purchased credit-impaired) at March 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 approximately $1.6 million. Older real estate appraisals were available for impaired loans with a carrying value of approximately $2.3 million. The remaining $896,000 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 March 31, 2013	Valuation technique	Unobservable inputs	Range of Discounts applied	Weighted-average discount applied
Available-for-sale securities (pooled trust preferred security)	$80,000	Discounted cash flow	Discount rate	n/a	7.2%
			Prepayment rate	n/a	1% annually (1)
			Projected defaults and deferrals	n/a	39.3%
			(% of pool balance)	n/a	4.6%

			Anticipated recoveries (% of pool balance)				
Impaired loans (collateral dependent)	379,000	Internal or third-party appraisal	Discount to reflect realizable value	1.6% - 36.2	%	7.2	%
Foreclosed and repossessed assets	3,532,000	Third party appraisal	Marketability discount	0.0% - 35.8	%	13.5	%

(1) The Level 3 fair value measurement also assumes that issuers of asset size $15 billion and above will generally prepay during 2013, unless issued at a variable
rate with a spread of less than 150 bps over LIBOR; other issuers are expected to prepay at a rate of 1% annually, unless issued at a fixed rate of 8% or more by
a bank reasonably expected to be able to prepay.

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 March 31, 2013, and June 30, 2012.

	March 31, 2013			
(dollars in thousands)	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	$40,823	$40,823	$-	$-
Interest-bearing time deposits	1,475	-	1,475	-
Stock in FHLB	2,018	-	2,018	-
Stock in Federal Reserve Bank of St. Louis	1,004	-	1,004	-
Loans receivable, net	617,207	-	-	619,063
Accrued interest receivable	3,078	-	3,078	-
Financial liabilities				
Deposits	630,897	372,795	-	258,807
Securities sold under agreements to repurchase	27,400	-	27,400	-
Advances from FHLB	24,500	-	27,701	-
Accrued interest payable	556	-	556	-
Subordinated debt	7,217	-	-	5,812
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

	June 30, 2012			
(dollars in thousands)	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	$33,421	$33,421	$-	$-
Interest-bearing time deposits	1,273	-	1,273	-
Stock in FHLB	2,018	-	2,018	-
Stock in Federal Reserve Bank of St. Louis	1,001	-	1,001	-
Loans receivable, net	583,465	-	-	587,955
Accrued interest receivable	3,694	-	3,694	-
Financial liabilities				
Deposits	584,814	353,212		232,583

Securities sold under agreements to repurchase	25,642	-	25,642	-
Advances from FHLB	24,500	-	27,923	-
Accrued interest payable	626	-	626	-
Subordinated debt	7,217	-	-	5,103
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.

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 March 31, 2013, the Bank conducts its business through its home office located in Poplar Bluff, and 17 full service branch facilities in Poplar Bluff (3), Van Buren, Dexter, Kennett, Doniphan, Qulin, Sikeston, Matthews, and Springfield, Missouri, and Paragould, Jonesboro, Brookland, Leachville, 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, 2012, 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 March 31, 2013, and results of operations for the three- and nine-month periods ended March 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 related to the Acquisition, net of tax;
- return on average assets excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition, net of tax;
- 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 related to the Acquisition, net of tax;
- net interest margin excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition;

These measurers 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 shareholders excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition, net of tax:

	For the three months ended	For the nine months ended

(dollars in thousands)	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Net income available to common stockholders	$2,416	$2,126	$7,242	$7,299
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	138	762	698	2,126
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	$2,278	$1,364	$6,544	$5,173

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

	For the three months ended				For the nine months ended			
	March 31, 2013		March 31, 2012		March 31, 2013		March 31, 2012	
Return on average assets	1.26	%	1.13	%	1.33	%	1.39	%
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	0.07	%	0.39	%	0.12	%	0.38	%
Return on average assets - excluding 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	1.19	%	0.74	%	1.21	%	1.01	%

The following table presents reconciliation to GAAP of 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 related to the Acquisition, net of tax:

	For the three months ended				For the nine months ended			
	March 31, 2013		March 31, 2012		March 31, 2013		March 31, 2012	
Return on average common equity	12.11	%	11.83	%	12.40	%	16.28	%
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	0.69	%	4.25	%	1.19	%	4.74	%
Return on average common equity - excluding 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	11.42	%	7.58	%	11.21	%	11.54	%

The following table presents reconciliation to GAAP of net interest margin excluding the 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		For the nine months ended	
	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Net interest margin	3.77 %	3.97 %	4.08 %	4.16 %
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	0.12 %	0.66 %	0.21 %	0.64 %
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	3.65 %	3.31 %	3.87 %	3.52 %

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 2012 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 58 in the Company's 2012 Annual Report.

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 nine months of fiscal 2013, we grew our balance sheet by $54.3 million. Asset growth reflected a $33.7 million increase in net loans receivable, a $7.6 million increase in cash equivalents and time deposits, a $5.0 million increase in available-for-sale investments, and a $5.0 million increase in premises and equipment. Deposits increased $46.1 million, and securities sold under agreements to repurchase increased $1.8 million. Advances from the Federal Home Loan Bank (FHLB) were unchanged. The increase in loan balances was primarily the result of growth in residential (primarily multifamily) and commercial real estate loans, partially offset by a decline in commercial loans (equipment and operating lines for agricultural and other commercial borrowers) and construction loan balances. The increase in deposits was primarily the result of higher balances in certificates of deposit, interest-bearing transaction accounts, and money market deposit accounts, partially offset by decreases in savings and noninterest-bearing transaction accounts.

Net income for the first nine months of fiscal 2013 decreased 2.1%, to $7.5 million, as compared to $7.7 million earned during the same period of the prior year. After accounting for dividends on preferred stock of $295,000, net earnings available to common shareholders were $7.2 million in the nine-month period ended March 31, 2013, a decrease of 0.8% as compared to the same period of the prior fiscal year. The decrease in net income compared to the year-ago period was attributable to an increase in noninterest expense, a decrease in net interest income, and an increase in provision for loan losses, partially offset by higher noninterest income and a decline in provision for income taxes. Diluted net income available to common shareholders was $2.14 per share for the first nine months of fiscal 2013, as compared to $2.67 per share for the same period of the prior year. The decrease was primarily due to the additional average shares outstanding as a result of the common offering completed in November 2011, as well as the lower net income available to common shareholders. For the first nine months of fiscal 2013, noninterest expense increased $486,000, or 3.9%; provision for loan losses increased $224,000, or 20.8%; net interest income decreased $466,000, or 2.1%; noninterest income increased $352,000, or 11.8%; and provision for income taxes decreased $661,000, or 17.5%, as compared to the same period of the prior fiscal year. For more information see "Results of Operations."

Interest rates during the first nine months of fiscal 2013 remained near historical lows. The yield curve steepened slightly from June 30, 2012, to March 31, 2013. Early in the fiscal year, medium- to longer-term rates moved lower, then increased through early March, and then moved back decidedly lower in the second half of March. Our net interest margin contracted for the three- and nine-month periods ended March 31, 2013, as compared to the same

periods of the prior year, as declining loan and investment yields were partially offset by shifting of earning asset balances from relatively lower-yielding cash equivalents into higher-yielding assets, primarily loans, and by a somewhat reduced cost of funds. Relative to recent historical norms, the curve remained relatively steep, and a steep curve is generally beneficial to the Company, however, extraordinarily low short-term rates are negatively impacting the Company's margin. In December 2008, the Federal Reserve's Open Market Committee (FOMC) 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. And most recently, the FOMC has shared its plan to purchase approximately $85 billion per month in longer-term Treasuries and additional agency mortgage-backed securities. It has also indicated that it anticipates continuing its extraordinarily low short-term rate policy until the unemployment rate would decline to 6.5% or less, or inflation expectations would exceed 2.5%. In this rate environment, our net interest margin declined when comparing the first nine months of fiscal 2013 to the same period of the prior year; however, the decline was attributable to fair value accounting for 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 nine months of fiscal 2013 to $1.1 million, as compared to $3.4 million in the first nine months of fiscal 2012. The decrease of $2.3 million equates to 43 basis points impact on the net interest margin. Our core net interest margin, excluding this income, improved to 3.87% in the current fiscal year-to-date, as compared to 3.52% in the prior fiscal year to date, primarily as a result of a decline in lower-yielding cash and cash equivalent balances, along with an increase in relatively higher-yielding loan balances (see "Non-GAAP Disclosures"). Of note, however, on a sequentially-linked quarter comparison, this core net interest margin has contracted as our yield on loans and securities, excluding accretion of the fair value discount on loans resulting from the Acquisition, has declined more rapidly than our cost of funds, excluding the amortization of fair value premium on time deposits resulting from the Acquisition. The Company expects that as the acquired loan portfolio continues to pay down, and the acquired time deposit portfolio matures, the positive impact on net interest income from this fair value accretion 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 nine-month period ended March 31, 2013, noninterest income increased $352,000, or 11.8%, as compared to the same period of the prior fiscal year, attributable primarily to increased deposit account charges and fees, increases in the cash value of bank-owned life insurance, and higher bank card interchange revenues, partially offset by the inclusion in the prior fiscal year's results of a benefit recognized on settlement of a legal claim obtained in the Acquisition. Noninterest expense increased $486,000, or 3.9%, during the first nine months of fiscal 2013, compared to the same period of the prior fiscal year, due primarily to compensation, occupancy, and other expenses (including costs related to foreclosed real estate), partially offset by the inclusion in the prior fiscal year's results of FHLB prepayment penalties.

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 March 31, 2013, and June 30, 2012

The Company's total assets increased by $54.3 million, or 7.3%, to $793.5 million at March 31, 2013, as compared to $739.2 million at June 30, 2012. Balance sheet growth consisted of increased loan, cash equivalent, fixed asset, investment securities, other assets (including investment in a limited partnership to generate tax credits), and foreclosed real estate balances. Balance sheet growth was funded by increases in deposits, securities sold under agreements to repurchase, and retained earnings.

Available-for-sale investments increased $5.0 million, or 6.6%, to $80.1 million at March 31, 2013, as compared to $75.1 million at June 30, 2012. Increases in US government agency and municipal obligations were partially offset by decreases in mortgage-backed securities. Cash equivalents and time deposits were up $7.6 million, or 21.9%, as compared to June 30, 2012, mostly attributable to seasonal loan paydowns.

Loans, net of the allowance for loan losses, increased $33.7 million, or 5.8%, to $617.2 million at March 31, 2013, as compared to $583.5 million at June 30, 2012. Increases in residential real estate and commercial real estate were

partially offset by decreases in commercial operating and equipment loans, and construction loan balances. Approximately two-thirds of the increase in residential lending was comprised of multifamily loans, while approximately three-quarters of the decrease in commercial operating and equipment loans was attributable to paydowns of agricultural operating lines, most of which is due to seasonal factors which should be expected to begin to reverse during the June 30 quarter.

Prepaid expenses and other assets increased $3.5 million, or 33.2%, to $13.9 million at March 31, 2013, as compared to $10.4 million at June 30, 2012, as a result of an increase in foreclosed real estate balances and investments in limited partnerships to generate tax credits. Fixed asset balances were up $5.0 million, or 44.3%, to $16.4 million at March 31, 2013, as compared to $11.3 million at June 30, 2012, as the Company made additional investments in facilities, primarily to replace leased office space.

Deposits increased $46.1 million, or 7.9%, to $630.9 million at March 31, 2013, as compared to $584.8 million at June 30, 2012. Increased balances were noted in certificates of deposit, interest-bearing checking, and money market deposit accounts, and were partially offset by decreases in savings and noninterest-bearing checking accounts.

Securities sold under agreements to repurchase totaled $27.4 million at March 31, 2013, as compared to $25.6 million at June 30, 2012, an increase of 6.9%. At both dates, the full balance of repurchase agreements was due to local small business and government counterparties.

FHLB advances were $24.5 million at March 31, 2013, unchanged in comparison to June 30, 2012; however, overnight FHLB advances were utilized during the first nine months of fiscal 2013 (the average amount of overnight borrowings was $7.7 million).

The Company's stockholders' equity increased $5.9 million, or 6.3%, to $100.7 million at March 31, 2013, from $94.7 million at June 30, 2012. The increase was due primarily to retention of net income, partially offset by cash dividends paid on common and preferred stock.

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

The tables below present certain information regarding our financial condition and net interest income for the three- and nine-month periods ended March 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 March 31, 2013			Three-month period ended March 31, 2012		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$478,762,516	$6,380,894	5.33	$401,378,588	$6,455,203	6.43
Other loans (1)	140,988,812	1,895,239	5.38	144,129,798	2,622,354	7.28
Total net loans	619,751,328	8,276,133	5.34	545,508,386	9,077,557	6.66
Mortgage-backed securities	17,016,148	64,093	1.51	19,792,811	224,338	4.53
Investment securities (2)	66,434,793	399,090	2.40	57,224,643	379,900	2.66
Other interest earning assets	27,178,638	17,168	0.25	113,479,186	73,414	0.26
Total interest earning assets (1)	730,380,907	8,756,484	4.80	736,005,026	9,755,209	5.30
Other noninterest earning assets (3)	50,033,134	-		31,009,164	-	
Total assets	$780,414,041	8,756,484		$767,014,190	9,755,209	
Interest bearing liabilities:						
Savings accounts	$83,713,884	101,427	0.48	91,971,336	171,648	0.75
NOW accounts	207,537,222	532,501	1.03	195,842,321	804,353	1.64
Money market deposit accounts	24,545,987	31,507	0.51	18,782,935	40,163	0.86
Certificates of deposit	248,987,259	844,989	1.36	256,541,314	994,940	1.55
Total interest bearing deposits	564,784,352	1,510,424	1.07	563,137,906	2,011,104	1.43
Borrowings:						
Securities sold under agreements to repurchase	30,471,285	57,662	0.76	29,177,647	64,958	0.89
FHLB advances	24,500,000	241,262	3.94	30,994,505	310,193	4.00
Subordinated debt	7,217,000	55,096	3.05	7,217,000	59,593	3.30
Total interest bearing liabilities	626,972,637	1,864,444	1.19	630,527,058	2,445,848	1.55
Noninterest bearing demand deposits	52,734,379	-		43,416,860	-	

Other noninterest bearing liabilities	935,148	-			1,138,129	-		
Total liabilities	680,642,164	1,864,444			675,082,047	2,445,848		
Stockholders’ equity	99,771,877	-			91,932,143	-		
Total liabilities and stockholders' equity	$780,414,041	1,864,444			$767,014,190	2,445,848		
Net interest income		$6,892,040				$7,309,361		
Interest rate spread (4)			3.61	%			3.75	%
Net interest margin (5)			3.77	%			3.97	%
Ratio of average interest-earning assets to average interest-bearing liabilities	116.49 %				116.73 %			

(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.

(2) Includes FHLB stock and related cash dividends.

(3) Includes average balances for fixed assets and BOLI of $15.9 million and $16.3 million, respectively, for the three-month period ended March 31, 2013, as compared to $10.7 million and $8.4 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.

	Nine-month period ended March 31, 2013			Nine-month period ended March 31, 2012		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$456,237,101	$19,399,294	5.67	$404,292,131	$20,271,123	6.69
Other loans (1)	157,176,661	6,461,140	5.48	152,841,046	7,619,137	6.65
Total net loans	613,413,762	25,860,434	5.62	557,133,177	27,890,260	6.67
Mortgage-backed securities	17,447,953	269,488	2.06	20,843,103	745,727	4.77
Investment securities (2)	61,206,914	1,138,456	2.48	50,448,829	1,122,083	2.97
Other interest earning assets	15,812,361	47,523	0.40	79,520,038	154,336	0.26
Total interest earning assets (1)	707,880,990	27,315,901	5.15	707,945,147	29,912,406	5.63
Other noninterest earning assets (3)	48,504,514	-		29,888,490	-	
Total assets	$756,385,504	27,315,901		$737,833,637	29,912,406	
Interest bearing liabilities:						
Savings accounts	$84,348,304	335,339	0.53	$93,723,346	$607,330	0.86
NOW accounts	197,433,563	1,642,780	1.11	176,932,085	2,509,046	1.89
Money market deposit accounts	20,481,844	81,299	0.53	17,735,944	129,777	0.98
Certificates of deposit	235,551,892	2,527,430	1.43	260,211,218	3,211,135	1.65
Total interest bearing deposits	537,815,603	4,586,848	1.14	548,602,593	6,457,288	1.57
Borrowings:						
Securities sold under agreements to repurchase	27,298,769	160,129	0.78	27,351,445	184,002	0.90
FHLB advances	32,182,446	754,716	3.13	32,664,835	988,975	4.04
Subordinated debt	7,217,000	171,868	3.18	7,217,000	173,360	3.20
Total interest bearing liabilities	604,513,818	5,673,561	1.25	615,835,873	7,803,625	1.69
Noninterest bearing demand deposits	53,455,528	-		40,588,691	-	
Other noninterest bearing liabilities	552,104	-		2,516,500	-	
Total liabilities	658,521,450	5,673,561		658,941,064	7,803,625	
Stockholders' equity	97,864,054	-		78,892,573	-	
Total liabilities and stockholders' equity	$756,385,504	5,673,561		$737,833,637	7,803,625	

Net interest income	$21,642,340		$22,108,781	
Interest rate spread (4)		3.90 %		3.94 %
Net interest margin (5)		4.08 %		4.16 %

Ratio of average interest-earning assets to average interest-bearing liabilities	117.10 %	114.96 %

(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.

(2) Includes FHLB stock and related cash dividends.

(3) Includes average balances for fixed assets and BOLI of $14.3 million and $16.1 million, respectively, for the nine-month period ended March 31, 2013, as compared to $9.4 million and $8.3 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.

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Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on the Company's net interest income for the three-and nine-month periods ended March 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 March 31, 2013 Compared to three-month period ended March 31, 2012, Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:				
Loans receivable (1)	$(1,800)	$1,236	$(238)	$(802)
Mortgage-backed securities	(149)	(31)	20	(160)
Investment securities (2)	(37)	61	(5)	19
Other interest-earning deposits	(3)	(56)	3	(56)
Total net change in income on interest-earning assets	(1,989)	1,210	(220)	(999)
Interest-bearing liabilities:				
Deposits	(499)	16	(18)	(501)
Securities sold under agreements to repurchase	(9)	3	(1)	(7)
Subordinated debt	(5)	-	-	(5)
FHLB advances	(5)	(65)	1	(69)
Total net change in expense on interest-bearing liabilities	(518)	(46)	(18)	(582)
Net change in net interest income	$(1,471)	$1,256	$(202)	$(417)

	Nine-month period ended March 31, 2013 Compared to nine-month period ended March 31, 2012, Increase (Decrease) Due to			
(dollars in thousands)				
Interest-earnings assets:	Rate	Volume	Rate/ Volume	Net
Loans receivable (1)	$(4,387)	$2,815	$(458)	$(2,030)
Mortgage-backed securities	(424)	(121)	68	(477)
Investment securities (2)	(185)	240	(39)	16
Other interest-earning deposits	83	(124)	(65)	(106)
Total net change in income on interest-earning assets	(4,913)	2,810	(494)	(2,597)
Interest-bearing liabilities:				
Deposits	(1,756)	(54)	(60)	(1,870)
Securities sold under agreements to repurchase	(25)	-	1	(24)
Subordinated debt	(1)	-	-	(1)

FHLB advances	(223)	(15)	4	(234)
Total net change in expense on interest-bearing liabilities	(2,005)	(69)	(55)	(2,129)
Net change in net interest income	$(2,908)	$2,879	$(439)	$(468)

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

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

General. Net income for the three-month period ended March 31, 2013, was $2.5 million, an increase of $290,000, or 13.3%, as compared to the $2.2 million earned in the same period of the prior fiscal year. After preferred dividends of $50,000, net income available to common shareholders was $2.4 million, an increase of $290,000, or 13.6%, as compared to the same period of the prior fiscal year.

For the nine-month period ended March 31, 2013, net income of $7.5 million represented a decrease of $164,000, or 2.1%, as compared to the $7.7 million earned in the same period of the prior fiscal year. After preferred dividends of $295,000, net income available to common shareholders was $7.2 million, a decrease of $57,000, or 0.8%, as compared to the same period of the prior fiscal year.

For the three-month period ended March 31, 2013, basic and fully-diluted net income per share available to common shareholders was $0.74 and $0.71, respectively, increases of $0.09, or 13.8%, and $0.07, or 10.9%, respectively, as compared to the same period of the prior year. The increase was attributable to the improved net income available to common shareholders. Our annualized return on average assets for the three-month period ended March 31, 2013, was 1.26%, as compared to 1.13% for the same period of the prior fiscal year. For the three-month period ended March 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, net of tax, was 1.19%, as compared to 0.74% for the same period of the prior year (see “Non-GAAP Disclosures”). Our return on average common stockholders’ equity for the three-month period ended March 31, 2013, was 12.1%, as compared to 11.8% in the same period of the prior fiscal year. For the three-month period ended March 31, 2013, return on average common stockholders’ equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits, net of tax, was 11.4%, as compared to 7.6% in the same period of the prior fiscal year (see “Non-GAAP Disclosures”).

For the nine-month period ended March 31, 2013, basic and fully-diluted net income per share available to common shareholders was $2.23 and $2.14, respectively, decreases of $0.53, or 19.2%, and $0.53, or 19.9%, respectively, as compared to the same period of the prior year. The decrease is primarily attributable to the additional average common shares outstanding following the November 2011 common stock offering. Our annualized return on average assets for the nine-month period ended March 31, 2013, was 1.33%, as compared to 1.39% for the same period of the prior fiscal year. For the nine-month period ended March 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, net of tax, was 1.21%, as compared to 1.01% for the same period of the prior fiscal year (see “Non-GAAP Disclsoures). Our return on average common stockholders’ equity for the nine-month period ended March 31, 2013, was 12.4%, as compared to 16.3% in the same period of the prior fiscal year. For the nine-month period ended March 31, 2013, return on average common stockholders’ equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits, net of tax, was 11.2%, as compared to 11.5% in the same period of the prior fiscal year (see “Non-GAAP Disclosures).

Net Interest Income. Net interest income for the three- and nine-month periods ended March 31, 2013, was $6.9 million and $21.6 million, respectively. The three-month period result reflected a decrease of $417,000, or 5.7%, as compared to the same period of the prior fiscal year, while the nine-month period result reflected a decrease of $466,000, or 2.1%, as compared to the same period 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 was $221,000 and $1.1 million, respectively, in the three-and nine-month periods ended March 31, 2013, as compared to $1.2 million and $3.4 million, respectively, in the same periods of the prior fiscal year.

Our net interest margin for the three- and nine-month periods ended March 31, 2013, determined by dividing annualized net interest income by total average interest-earning assets, was 3.77% and 4.08%, respectively, as compared to 3.97% and 4.16%, 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 was 3.65% and 3.87%, respectively for the three- and nine-month periods ended March 31, 2013, as compared to 3.31% and 3.52%, respectively, for the same periods of the prior fiscal year (see “Non-GAAP Disclosures”).

Our average net interest rate spread for the three-month period ended March 31, 2013, was 3.61%, as compared to 3.75% for the same period of the prior fiscal year. The 14 basis point decrease in the net interest rate spread, compared to the same period a year ago, resulted from a 50 basis point decline in the average yield on interest-earning assets, partially offset by a 36 basis point decline in the average cost of interest-bearing liabilities. The decrease in net interest spread was attributable to the reduction in net interest income attributable to accretion of fair value discount

on acquired loans and amortization of fair value premium on acquired time deposits, as noted above, combined with continued repricing of earning assets at lower market yields, partially offset by the shifting of average earning asset balances from cash equivalents into relatively higher yielding asset classes, primarily loans, and a decrease in average funding costs. When comparing the three-month period ended March 31, 2013, to the same period of the prior fiscal year, the Company's average balance sheet includes a $5.6 million, or 0.8%, decrease in the average balance of interest-earning assets, as the reduction in average cash equivalent and time deposit balances more than offset growth in average loan and securities balances.

Our average net interest rate spread for the nine-month period ended March 31, 2013, was 3.90%, as compared to 3.94% for the same period of the prior fiscal year. The four basis point decrease in the net interest rate spread, compared to the same period a year ago, resulted from a 48 basis point decline in the average yield on interest-earning assets, partially offset by a 44 basis point decline in the average cost of interest-bearing liabilities. The decrease in net interest spread was attributable to the reduction in net interest income attributable to accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, as noted above, combined with continued repricing of

earning assets at lower market yields, partially offset by the shifting of average earning asset balances from cash equivalents into relatively higher yielding asset classes, primarily loans, and a decrease in average funding costs. When comparing the nine-month period ended March 31, 2013, to the same period of the prior fiscal year, the Company's average balance sheet reflects a roughly unchanged balance of interest-earning assets, as a $63.7 million reduction in average cash equivalent and time deposit balances was roughly offset by growth in average loan and securities balances.

Interest Income. Total interest income for the three- and nine-month periods ended March 31, 2013, was $8.8 million and $27.3 million, respectively, decreases of $1.0 million, or 10.2%, and $2.6 million, or 8.7%, respectively, as compared to the amounts earned in the same periods of the prior fiscal year. The decreases were attributed primarily to declines of 50 and 48 basis points, respectively, in the average yield on interest-earning assets for the three- and nine-month periods ended March 31, 2013, as compared to the same periods of the prior fiscal year. The declines in yield were attributed to the decrease in the accretion of fair value discount on acquired loans, as described above, as well as lower yields available for new investments in the Company's loan and securities portfolios, as market rates have declined. These factors have been partially offset by a lower percentage of interest-earning assets held in relatively low-yielding cash equivalents. The decline in the average yield was compounded by a decrease of $5.6 million, or 0.8%, in the average balance of interest-earning assets for the three-month period ended March 31, 2013, as compared to the same period of the prior fiscal year. For the nine-month period ended March 31, 2013, the average balance of interest-earning assets was roughly unchanged.

Interest Expense. Total interest expense for the three- and nine-month periods ended March 31, 2013, was $1.9 million and $5.7 million, respectively, decreases of $581,000, or 23.8%, and $2.1 million, or 27.3%, respectively, as compared to the same periods of the prior fiscal year. The decreases were due to declines of 36 and 44 basis points, respectively, in the average cost of interest-bearing liabilities, combined with decreases of $3.6 million, or 0.6%, and $11.3 million, or 1.8%, respectively, in the average balance of those liabilities for the three- and nine-month periods ended March 31, 2013, as compared to the same periods of the prior fiscal year. The decline in the average cost of interest-bearing liabilities was attributed to generally lower market rates for deposits and other funding sources.

Provisions for Loan Losses. The provision for loan losses for the three- and nine-month periods ended March 31, 2013, was $228,000 and $1.3 million, respectively, as compared to $215,000 and $1.1 million, respectively, in the same periods of the prior fiscal year. As a percentage of average loans outstanding, provision for loan losses in the current three- and nine-month periods represented annualized charges of 0.15% and 0.28%, respectively, as compared to 0.16% and 0.26%, respectively, for the same periods of the prior fiscal year. Relatively stable provisioning for the three- and nine-month periods ended March 31, 2013, as compared to the same periods of the prior fiscal year, was attributed primarily to a relatively stable and low level of net charge offs and nonperforming and classified credits, partially offset by an increase in loan balances. Net charge offs for the nine-month period ended March 31, 2013, were 0.15% of average loans, as compared to 0.06% for the same period of the prior fiscal year. 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 poor, and as other conditions 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 nine-month periods ended March 31, 2013, was $1.1 million and $3.3 million, respectively, increases of $189,000, or 19.8%, and $352,000, or 11.8%, respectively, as compared to the same periods of the prior fiscal year. The increase was attributed primarily to increased deposit account charges and fees (resulting from transaction account growth and increased NSF activity), increases in the cash value of bank-owned life insurance (resulting from an additional investment in such policies in March 2012), higher bank card network interchange revenues (resulting from additional bank card transaction volume), and increased loan

origination and other fees. The nine-month period comparison was less favorable as a result of inclusion in the prior period's result of the benefit recognized on settlement of a legal claim obtained in the Acquisition.

Noninterest Expense. Noninterest expense for the three-month period ended March 31, 2013, was $4.4 million, a decrease of $426,000, or 8.8%, as compared to the same period of the prior fiscal year. For the nine-month period ended March 31, 2013, noninterest expense was $13.0 million, an increase of $486,000, or 3.9%, as compared to the same period of the prior fiscal year. For the three-month period, the decrease was primarily attributable to the inclusion in the prior period's results of $476,000 in FHLB prepayment penalties, lower costs to provide electronic banking services, and lower consulting expenses, partially offset by higher compensation and occupancy expenses, and larger losses on sales of foreclosed property. For the nine-month period, the increase was the result of higher compensation and occupancy expenses, expenses related to foreclosed property, and losses on sales of foreclosed property, partially offset by the inclusion in the prior period's results of the $476,000 in FHLB prepayment penalties, and lower current period expenses for electronic banking services, consulting services, and advertising. Increases in compensation expense were attributable to general salary and wage increases, the addition of key personnel, long-term equity awards, and higher costs for health

insurance expenses. Occupancy expenses were higher due mainly to depreciation of new equipment purchases, including ATMs, and higher data processing expenses. The efficiency ratio for the three- and nine-month periods ended March 31, 2013, determined by dividing total noninterest expense by the sum of net interest income and noninterest income, was 55.3% and 52.2%, respectively, as compared to 58.9% and 50.0%, respectively, for the same periods of the prior fiscal year. The improvement for the three-month period is due primarily to inclusion in the prior period's results of the FHLB prepayment penalty. For the nine-month period, the deterioration resulted from an increase of 3.9% in expenses, combined with a 0.5% decrease in revenues. The decline in revenues was primarily attributable to the reduction in the accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Acquisition, discussed above.

Income Taxes. The income tax provision for the three- and nine-month periods ended March 31, 2013, was $901,000 and $3.1 million, respectively, decreases of $105,000, or 10.5%, and $661,000, or 17.5%, respectively, as compared to the same periods of the prior fiscal year. The decline for the three-month period was attributed to a decline in the effective tax rate, to 26.8% in the current three-month period, as compared to 31.6% in the prior three-month period, partially offset by an increase in pre-tax income. The decline for the nine-month period was attributed to a decline in the effective tax rate, to 29.2% in the current nine-month period, as compared to 32.8% in the prior nine-month period, combined with a decrease in pre-tax income. The decreases in the effective tax rates were attributed to continued additional investments in tax-advantaged assets.

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 nine-month periods ended March 31, 2013 and 2012:

	Three months ended March 31,	
	2013	2012
Balance, beginning of period	$7,920,201	$7,046,590
Loans charged off:		
Residential real estate	(36,028)	-
Construction	-	-
Commercial business	-	-
Commercial real estate	(12,416)	-
Consumer	-	(9,235)
Gross charged off loans	(48,444)	(9,235)
Recoveries of loans previously charged off:		
Residential real estate	112	63
Construction	-	341
Commercial business	457	1,944
Commercial real estate	2,084	-
Consumer	6,071	3,671
Gross recoveries of charged off loans	8,724	6,019
Net charge offs	(39,720)	(3,216)

Provision charged to expense	228,375	215,338
Balance, end of period	$8,108,857	$7,258,712

	Nine months ended March 31,	
	2013	2012
Balance, beginning of period	$7,492,054	$6,438,451
Loans charged off:		
Residential real estate	(239,270)	(91,369)
Construction	-	-
Commercial business	(417,071)	(33,625)
Commercial real estate	(21,005)	(24,824)
Consumer	(29,466)	(137,002)
Gross charged off loans	(706,812)	(286,820)
Recoveries of loans previously charged off:		
Residential real estate	337	6,614
Construction	-	801
Commercial business	4,918	10,968
Commercial real estate	8,782	430
Consumer	8,497	10,814
Gross recoveries of charged off loans	22,534	29,627
Net charge offs	(684,278)	(257,193)
Provision charged to expense	1,301,081	1,077,454
Balance, end of period	$8,108,857	$7,258,712

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 $600,000 to $8.1 million at March 31, 2013, from $7.5 million at June 30, 2012. The increase was necessary 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 March 31, 2013.

At March 31, 2013, the Company had $6.8 million, or 1.09% of total loans, adversely classified (none classified "special mention"; $6.8 million classified "substandard"; none classified "doubtful"; and none classified "loss"), as compared to $16.3 million, or 1.52% of total loans, adversely classified ($16.3 million classified "substandard"; none classified "doubtful"; and none classified "loss") at June 30, 2012, and $9.1 million, or 1.6% of total loans, adversely classified (none classified "special mention"; $9.1 million classified "substandard"; none classified "doubtful"; and none classified "loss") at March 31, 2012. Classified loans were generally comprised of loans secured by commercial real estate loans, commercial loans, and residential real estate loans. 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 $381,000 at March 31, 2013. The Company's investment in the Trapeza 4 CDO (see "Executive Summary" and "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. During fiscal year 2011, the Company modified its allowance methodology to also consider the most recent twelve-month period's average net charge offs and to use 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. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The impact of the modification was minimal.

The following table sets forth the Company's historical net charge offs as of March 31, 2013, and June 30, 2012:

Portfolio segment	March 31, 2013 Net charge offs – 12-month historical		June 30, 2012 Net charge offs – 12-month historical	
Real estate loans:				
Residential	0.11	%	0.05	%
Construction	0.00	%	0.00	%
Commercial	0.19	%	0.03	%
Consumer loans	0.22	%	0.59	%
Commercial loans	0.39	%	0.41	%

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 March 31, 2013, and June 30, 2012, 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 ended March 31, 2013		Qualitative factor applied at fiscal year ended June 30, 2012	
Real estate loans:				
Residential	0.68	%	0.83	%
Construction	1.06	%	1.10	%
Commercial	1.31	%	1.32	%
Consumer loans	1.55	%	1.38	%
Commercial loans	1.02	%	1.38	%

At March 31, 2013, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $6.2 million, as compared to $6.3 million at June 30, 2012. The reduction in the Company's qualitative factors were attributed primarily to significant reduction in the level of classified loans, to seasoning of the Company's portfolio in relatively new markets, and to improving agricultural lending conditions resulting from strong commodity prices.

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 at selected dates:

	March 31, 2013	June 30, 2012	March 31, 2012
Nonaccruing loans:			
Residential real estate	$212,719	$395,374	$382,168
Construction	100,351	-	-
Commercial real estate	319,932	976,881	1,060,012
Consumer	55,521	15,971	30,779
Commercial business	1,131,416	1,010,123	482,146
Total	1,819,939	2,398,349	1,955,105
Loans 90 days past due accruing interest:			
Residential real estate	-	-	31,788
Commercial real estate	16,239	-	616,064
Consumer	-	-	-
Commercial business	-	-	-
Total	16,239	-	647,852
Total nonperforming loans	1,836,178	2,398,349	2,602,957
Nonperforming investments	125,000	125,000	125,000
Foreclosed assets held for sale:			
Real estate owned	3,454,030	1,426,126	1,081,626
Other nonperforming assets	77,545	9,100	27,221
Total nonperforming assets	$5,492,753	$3,958,575	$3,836,804

At March 31, 2013, troubled debt restructurings (TDRs) totaled $4.6 million, of which $1.1 million was considered nonperforming and was included in the nonaccrual loan total above. The remaining $3.5 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 March 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, 2012, troubled debt restructurings (TDRs) totaled $4.9 million, of which $1.7 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $3.1 million in TDRs at June 30, 2012, 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 March 31, 2013, nonperforming assets totaled $5.5 million, as compared to $4.0 million at June 30, 2012, and $3.8 million at March 31, 2012. The increase in nonperforming assets from fiscal year end was attributed primarily to a single credit relationship which migrated from classified to nonaccrual status during the quarter ended September 30, 2012, and to foreclosed real estate owned during the quarter ended December 31, 2012. The foreclosed real estate owned resulting from this relationship consisted of commercial real estate and a single family

residence. Nonperforming investments consist of the Company's investment in Trapeza CDO IV, Ltd., class C2 (see Executive Summary).

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 March 31, 2013, the Company had outstanding commitments and approvals to fund approximately $24.4 million in mortgage and non-mortgage loans. 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 March 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 $208.5 million, of which $24.5 million had been advanced (at March 31, 2013, no letters of credit had been issued on the Bank's behalf in order to secure public unit funding). 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 $274.6 million , subject to available collateral. Also, at March 31, 2013, the Bank had pledged a total of $83.8 million in loans secured by farmland and agricultural production loans to the Federal Reserve, providing access to $56.1 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's 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's 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 March 31, 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of March 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's and Bank's actual and required regulatory capital:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
As of March 31, 2013	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-Weighted Assets)									
Consolidated	$113,463	18.66	%	$47,781	8.00	%	n/a	n/a	
Southern Bank	90,927	14.99	%	47,191	8.00	%	58,989	10.00	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	106,074	17.76	%	23,891	4.00	%	n/a	n/a	

Southern Bank	82,994	14.07	%	23,596	4.00	%	35,394	6.00	%
Tier I Capital (to Average Assets)									
Consolidated	106,074	14.10	%	30,101	4.00	%	n/a	n/a	
Southern Bank	82,994	11.13	%	29,825	4.00	%	37,281	5.00	%

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
As of June 30, 2012	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk-Weighted Assets)									
Consolidated	$106,796	19.08	%	$44,772	8.00	%	n/a	n/a	
Southern Bank	83,992	15.21	%	44,170	8.00	%	55,213	10.00	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	99,788	17.83	%	22,386	4.00	%	n/a	n/a	
Southern Bank	77,077	13.96	%	22,085	4.00	%	33,128	6.00	%
Tier I Capital (to Average Assets)									
Consolidated	99,788	13.47	%	29,635	4.00	%	n/a	n/a	
Southern Bank	77,077	10.52	%	29,296	4.00	%	36,620	5.00	%

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 nine months of fiscal year 2013, fixed rate 1- to 4-family residential loan production totaled $7.7 million, as compared to $13.5 million during the same period of the prior fiscal year. At March 31, 2013, the fixed rate residential loan portfolio was $93.2 million with a weighted average maturity of 181 months, as compared to $105.7 million at March 31, 2012, with a weighted average maturity of 175 months. The Company originated $30.8 million in adjustable-rate 1- to 4-family residential loans during the nine-month period ended March 31, 2013, as compared to $13.6 million during the same period of the prior fiscal year. At March 31, 2013, fixed rate loans with remaining maturities in excess of 10 years totaled $58.5 million, or 9.5% of net loans receivable, as compared to $75.4 million, or 13.9% of net loans receivable at March 31, 2012. The Company originated $58.2 million of fixed rate commercial and commercial real estate loans during the nine-month period ended March 31, 2013, as compared to $54.7 million during the same period of the prior fiscal year. At March 31, 2013, the fixed rate commercial and commercial real estate loan portfolio was $251.3 million with a weighted average maturity of 38 months, compared to $206.3 million at March 31, 2012, with a weighted average maturity of 36 months. The Company originated $45.8 million in adjustable rate commercial and commercial real estate loans during the nine-month period ended March 31, 2013, as compared to $29.9 million during the same period of the prior fiscal year. At March 31, 2013, adjustable-rate home equity lines of credit totaled $15.4 million, as compared to $15.7 million at March 31, 2012. At March 31, 2013, the Company's investment portfolio had an estimated modified duration of 3.11, compared to 3.07 at March 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 March 31, 2013, and June 30, 2012, 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.

March 31, 2013

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+300	$ 93,943	$ (8,260)	-8 %	11.76 %	-0.86 %
+200	96,818	(5,385)	-5 %	12.06 %	-0.55 %
+100	98,805	(3,399)	-3 %	12.25 %	-0.36 %
NC	102,203	-	-	12.61 %	-
-100	105,551	3,348	3 %	12.98 %	0.36 %
-200	109,203	7,000	7 %	13.38 %	0.77 %
-300	112,727	10,524	10 %	13.76 %	1.15 %

June 30, 2012

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+300	$ 87,871	$ (8,909)	-9 %	11.60 %	-1.02 %
+200	91,106	(5,674)	-6 %	11.99 %	-0.63 %
+100	93,831	(2,949)	-3 %	12.29 %	-0.33 %
NC	96,780	-	-	12.62 %	-
-100	99,147	2,367	2 %	12.88 %	0.25 %
-200	102,753	5,973	6 %	13.28 %	0.66 %
-300	106,045	9,266	10 %	13.65 %	1.02 %

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 March 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 March 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 March 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

There have been no 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, 2012.

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
1/1/2013 thru 1/31/2013	-	-	-	-
2/1/2013 thru 2/28/2013	-	-	-	-
3/1/2013 thru 3/31/2013	-	-	-	-
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(a)(i)	Amendment to 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+++++++

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	(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 December 31, 2011, 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: May 14, 2013	/s/ Greg A. Steffens Greg A. Steffens President & Chief Executive Officer (Principal Executive Officer)
Date: May 14, 2013	/s/ Matthew T. Funke Matthew T. Funke Chief Financial Officer (Principal Financial and Accounting Officer)