SOUTHERN MISSOURI BANCORP INC
Form 10-K
September 15, 2014

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

FORM 10-K

[X]	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended June 30, 2014 OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-23406

SOUTHERN MISSOURI BANCORP, INC.

(Exact name of registrant as specified in its charter)

Missouri	43-1665523
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
531 Vine Street, Poplar Bluff, Missouri	63901
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

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

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

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files. YES x NO o

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

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the high and low traded price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was $96.8 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of September 11, 2014, there were issued and outstanding 3,686,333 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K - Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

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

Southern Missouri Savings Bank was originally chartered as a mutual Missouri savings and loan association in 1887. On June 20, 1995, it converted to a federally chartered stock savings bank and took the name Southern Missouri Savings Bank, FSB. On February 17, 1998, Southern Missouri Savings Bank converted from a federally chartered stock savings bank to a Missouri chartered stock savings bank and changed its name to Southern Missouri Bank & Trust Co. On June 4, 2004, Southern Missouri Bank & Trust Co. converted from a Missouri chartered stock savings bank to a Missouri state chartered trust company with banking powers ("Charter Conversion"). On June 1, 2009, the institution changed its name to Southern Bank ("Bank").

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

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

At June 30, 2014, the Company had total assets of $1.0 billion, total deposits of $785.8 million and stockholders' equity of $111.1 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank. The Company's revenues are derived principally from interest earned on loans, debt securities, MBS, CMOs and, to a lesser extent, banking service charges, bank card interchange fees, loan late charges, increases in the cash surrender value of bank owned life insurance, and other fee income.

Acquisitions

On February 25, 2014, the Company entered into a definitive agreement under which it would acquire Peoples Service Company (Peoples), and its subsidiary, Peoples Bank of the Ozarks, headquartered in Nixa, Missouri. The acquisition closed on August 5, 2014, following our fiscal year end. Peoples Bank of the Ozarks operates ten branches in southwest Missouri. As of the acquisition date, along with a minority interest to be acquired, Peoples had assets of $267 million, net loans of $192.9 million, and deposits of $221.2 million. We expect to merge Peoples Bank of the Ozarks into Southern Bank effective December 2014.

The Company completed its acquisition of Ozarks Legacy Community Financial, Inc. (Ozarks Legacy), and its subsidiary, Bank of Thayer, headquartered in Thayer, Missouri, in October 2013. At closing, Ozarks Legacy had total assets of approximately $81 million, loans, net, of $38 million, and deposits of $68 million. The Company completed its acquisition of Citizens State Bankshares of Bald Knob, Inc. (Citizens), and its subsidiary, Citizens State Bank, headquartered in Bald Knob, Arkansas, in February 2014. At closing, Citizens had total assets of approximately $72 million, loans, net, of $12 million, and deposits of $64 million. Collectively, the Ozarks Legacy and Citizens acquisitions are referred to as the Fiscal 2014 Acquisitions.

On December 17, 2010, the Bank entered into a Purchase and Assumption Agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of the former First Southern Bank, with headquarters in Batesville, Arkansas, and one branch location in Searcy, Arkansas. As a result of the transaction, the Company acquired loans recorded at a fair value of $114.6 million and deposits recorded at a fair value of $130.8 million, at December 17, 2010. The First Southern Bank acquisition is referred to as the Fiscal 2011 Acquisition.

Capital Raising Transactions

On November 22, 2011, the Company completed an underwritten public offering of 1,150,000 shares of common stock at a price to the public of $19.00 per share, for aggregate gross proceeds of $21.9 million. The proceeds from the offering have been used for general corporate purposes, including the funding of loan growth and the purchase of securities.

On July 21, 2011, as part of the U.S. Treasury's Small Business Lending Fund ("SBLF") program, the Company entered into a Small Business Lending Fund-Securities Purchase Agreement ("SBLF Purchase Agreement") with the Secretary of the Treasury, pursuant to which the Company (i) sold 20,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "SBLF Preferred Stock") to the Secretary of the Treasury for a purchase price of $20,000,000. The SBLF program is 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, fluctuated on a quarterly basis during the first ten quarters during which the SBLF Preferred Stock was outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the SBLF Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate ranged from 1.0% to 3.9% during the first through the tenth calendar quarters since the SBLF issuance, adjusted to reflect the amount of change in the Bank's level of QBSL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at one percent (1%), based upon the increase in QSBL as of September 30, 2013, as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, whether or not consecutive, the holder of the SBLF Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, whether or not consecutive, and if the then outstanding aggregate liquidation amount of the SBLF Preferred Stock is at least $20,000,000, then the holder of the SBLF Preferred Stock will have the right to designate two directors to the Board of Directors of the Company. The SBLF Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its federal banking regulator. As required by the Purchase Agreement, $9,635,000 of the proceeds from the sale of the SBLF Preferred Stock was used to redeem the 9,550 shares of the Company's CPP Series A Preferred Stock, Series A issued in 2008 to the Treasury, plus the accrued dividends owed on the TARP preferred shares, as described below.

On December 5, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"), the Company issued a warrant (the "Warrant") to purchase 114,326 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), for a per share price of $12.53 per share. Pursuant to the securities purchase agreement, the Warrant is adjusted for dividend payments by the Company in excess of $0.12 per quarter. As a result, the Warrant is exercisable for 115,469 shares of common stock at a price of $12.41 per share, as of June 30, 2014. The Warrant has a 10-year term and was immediately exercisable upon its issuance. In July 2011, the CPP Series A Preferred Stock was redeemed by the Company simultaneously with its issuance to the Treasury of preferred stock under the terms of the SBLF. The Warrant remains outstanding.

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 include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and the intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below, as well as other factors discussed in this report under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified 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:

- expected cost savings, synergies and other benefits from our merger and acquisition activities, including our acquisition of Peoples Service Company and our other recently completed acquisitions, 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;

- 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 FRB 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;

- fluctuations in real estate values and both residential and commercial real estate market conditions;

- demand for loans and deposits;

- legislative or regulatory changes that adversely affect our business;

- results of regulatory examinations, including the possibility that a regulator may, among other things, require an increase in our reserve for loan losses or write-down of assets;

- the impact of technological changes; and

- our success at managing the risks involved in the foregoing.

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

Market Area

The Bank provides its customers with a full array of community banking services and conducts its business from its headquarters in Poplar Bluff, 22 additional full service offices, and two limited service offices located in Poplar Bluff (3), Van Buren, Dexter, Kennett, Doniphan, Sikeston, Qulin, Matthews, Springfield, Thayer (2), West Plains, and Alton Missouri, and Jonesboro (2), Paragould, Brookland, Batesville, Searcy, Bald Knob (2) and Bradford, Arkansas. At June 30, 2014, the Bank considered its primary market area to be as follows: the Bank operates 16 facilities in eight southeast Missouri counties, with one branch in a municipality that straddles a county line and is mostly situated in a ninth county. Those nine counties (Butler, Carter, Dunklin, Howell, New Madrid, Oregon, Ripley, Scott, and Stoddard) have a population of roughly 243,000 persons. In northeast and north central Arkansas, the Bank's nine facilities are located in four counties (Craighead, Greene, Independence, and White) with a population of roughly 260,000 persons. The Bank also serves a few communities just outside these county borders, but without a notable impact on the demographics of the market area. Springfield, Missouri, is situated in Greene County, Missouri, with a population of 284,000, and anchors the surrounding Metropolitan Statistical Area (MSA), which boasted a population of nearly 449,000. The Bank's southeast Missouri and northeast and north central Arkansas markets are primarily rural in nature with economies supported by manufacturing activity, agriculture (livestock, rice, timber, soybeans, wheat, melons, corn, and cotton), healthcare, and education. Large employers include hospitals, manufacturers, school districts, and colleges. In the Springfield market, major employers include healthcare providers, educational institutions, federal, local, and state government, retailers, and transportation and distribution firms. For purposes of the Bank's lending policy, the Bank's primary lending area is considered to be counties where the Bank has a branch facility, and any contiguous county.

As discussed previously, the Company's acquisition of Peoples, in August 2014, added ten offices in southwest Missouri. Eight of those branches are located within the Springfield MSA, included in the market area description above. The remaining two branches are located in Stone and Taney counties, Missouri, with a combined population of 85,000. Economic activity in this market area will be driven more by leisure, entertainment, and accommodations.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. At June 30, 2014, the Bank was one of 48 bank or saving association groups located in its southeast Missouri and northeast Arkansas market area, and one of 28 bank or saving association groups located in Springfield, Missouri (eight of these overlap with the Bank's southeast Missouri and northeast and north central Arkansas markets).

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

Internet Website

The Company maintains a website at www.bankwithsouthern.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The 56+Company currently makes available on or through its website at http://investors.bankwithsouthern.com its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge on the Securities and Exchange Commission's website at www.sec.gov.

Lending Activities

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

Supervision of the loan portfolio is the responsibility of our Chief Lending Officer. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the next level of authority, which may include the Commercial Loan Committee or the Agricultural Loan Committee. The Commercial Loan Committee consists of several senior lending officers of the Bank and is responsible for approving commercial lending relationships up to $1.5 million The Agricultural Loan Committee consists of several senior lending officers of the Bank and is responsible for approving agricultural lending relationships of up to $1.5 million. Loan requests above these approval authorities are presented to the Senior Loan Committee, comprised of our President/Chief Executive Officer, Chief Lending Officer, and Chief Credit Officer, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in the aggregate, in excess of $2.0 million require the approval of a majority of the Discount Committee, which consists of all Bank directors, prior to the closing of the loan. All loans are subject to ratification by the full Board of Directors.

The aggregate amount of loans that the Bank is permitted to make under applicable federal regulations to any one borrower, including related entities, or the aggregate amount that the Bank could have invested in any one real estate project, is based on the Bank's capital levels. See "Regulation - Loans to One Borrower." At June 30, 2014, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately $29.4 million. At June 30, 2014, the Bank's ten largest credit relationships, as defined by loan to one borrower limitations, ranged from $8.9 million to $16.0 million, net of participation interests sold. As of June 30, 2014, the majority of these credits were commercial real estate, multi-family real estate, or commercial business loans, and all of them continued to perform according to their terms.

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

	At June 30,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Type of Loan:						
Mortgage Loans:						
Residential real estate	$303,901	37.94 %	$233,888	36.14 %	$201,013	34.45 %
Commercial real estate (1)	308,520	38.51	242,304	37.44	200,957	34.44
Construction	40,738	5.09	30,725	4.75	40,182	6.89
Total mortgage loans	653,159	81.54	506,917	78.33	442,152	75.78
Other Loans:						
Automobile loans	8,276	1.03	6,779	1.05	7,552	1.29
Commercial business (2)	141,072	17.61	130,868	20.22	137,004	23.48
Home equity	17,929	2.24	15,775	2.44	15,856	2.72
Other	9,018	1.13	5,862	0.91	5,578	0.96
Total other loans	176,295	22.01	159,284	24.61	165,990	28.45
Total loans	829,454	103.55	666,201	102.94	608,142	104.23
Less:						
Undisbursed loans in process	19,261	2.41	10,792	1.67	17,370	2.98
Deferred fees and discounts	(122)	(0.02)	(143)	(0.02)	(185)	(0.03)
Allowance for loan losses	9,259	1.16	8,386	1.30	7,492	1.28
Net loans receivable	$801,056	100.00 %	$647,166	100.00 %	$583,465	100.00 %
Type of Security:						
Residential real estate						
One-to four-family	$235,947	29.45	$205,281	31.72	$189,313	32.45
Multi-family	87,161	10.88	47,388	7.32	36,513	6.26
Commercial real estate	243,090	30.35	190,563	29.45	162,478	27.85
Land	86,960	10.86	63,689	9.84	58,830	10.08
Commercial	141,072	17.61	130,867	20.22	132,022	22.63
Consumer and other	35,224	4.40	28,413	4.39	28,986	4.97
Total loans	829,454	103.55	666,201	102.94	608,142	104.23
Less:						
Undisbursed loans in process	19,261	2.41	10,792	1.67	17,370	2.98
Deferred fees and discounts	(122)	(0.02)	(143)	(0.02)	(185)	(0.03)
Allowance for loan losses	9,259	1.16	8,386	1.30	7,492	1.28
Net loans receivable	$801,056	100.00 %	$647,166	100.00 %	$583,465	100.00 %

(1) Commercial real estate loan balances included farmland and other agricultural-related real estate loans of $63.8 million, $53.0 million and $48.6 million as of June 30, 2014, 2013, and 2012, respectively.

(2) Commercial business loan balances included agricultural equipment and production loans of $53.4 million, $47.4 million and $50.8 million as of June 30, 2014, 2013, and 2012, respectively.

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

	At June 30,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan:						
Fixed-Rate Loans:						
Residential real estate	$136,357	17.01 %	$111,520	17.23 %	$115,716	19.83 %
Commercial real estate	211,833	26.44	156,349	24.16	128,954	22.10
Construction	38,928	4.86	26,788	4.14	35,886	6.15
Consumer	17,233	2.15	12,641	1.95	13,130	2.25
Commercial business	86,961	10.86	72,739	11.24	75,910	13.01
Total fixed-rate loans	491,312	61.32	380,037	58.72	369,596	63.34
Adjustable-Rate Loans:						
Residential real estate	167,544	20.91	122,368	18.91	85,296	14.62
Commercial real estate	96,686	12.07	85,955	13.28	72,005	12.34
Construction	1,810	0.23	3,937	0.61	4,296	0.74
Consumer	17,990	2.25	15,775	2.44	15,855	2.72
Commercial business	54,112	6.76	58,129	8.98	61,094	10.47
Total adjustable-rate loans	338,142	42.22	286,164	44.22	239,546	40.88
Total loans	829,454	103.54	666,201	102.94	608,142	104.23
Less:						
Undisbursed loans in process	19,261	2.40	10,792	1.67	17,370	2.98
Net deferred loan fees	(122)	(0.02)	(143)	(0.02)	(185)	(0.3))
Allowance for loan loss	9,259	1.16	8,386	1.30	7,492	1.28
Net loans receivable	$801,056	100.00 %	$647,166	100.00 %	$583,465	100.00 %

Residential Mortgage Lending. The Bank actively originates loans for the acquisition or refinance of one- to four-family residences. These loans are originated as a result of customer and real estate agent referrals, existing and walk-in customers and from responses to the Bank's marketing campaigns. At June 30, 2014, residential loans secured by one- to four-family residences totaled $235.9 million, or 29.5% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2014, the Bank originated $31.9 of ARM loans and $17.2 of fixed-rate loans that were secured by one- to four-family residences, for retention in the Bank’s portfolio. An additional $15.5 million in fixed-rate one- to four-family residential loans were originated for sale on the secondary market. Substantially all of the one- to four-family residential mortgage originations in the Bank's portfolio are located within the Bank's primary market area.

The Bank generally originates one- to four-family residential mortgage loans in amounts up to 90% of the lower of the purchase price or appraised value of residential property. For loans originated in excess of 80%, the Bank charges an additional 50-75 basis points, but does not require private mortgage insurance. At June 30, 2014, the remaining balance of loans originated with a loan-to-value ratio in excess of 80% was $57.1 million. For fiscal years ended June 30, 2014, 2013, and 2012, originations of one- to four-family loans in excess of 80% loan-to-value have totaled $13.6 million, $13.8 million, and $12.7 million, respectively, a total of $40.1 million. The remaining balance of those loans at June 30, 2014, was $28.5 million. Originating loans with higher loan-to-value ratios presents additional credit risk to the Company. Consequently, the Company limits this product to borrowers with a favorable credit history and a demonstrable ability to service the debt. The majority of new residential mortgage loans originated by the Bank conform to secondary market underwriting standards, however, documentation of loans files may not be adequate to allow for immediate sale. The interest rates charged on these loans are competitively priced based on local market conditions, the availability of funding, and anticipated profit margins. Fixed and ARM loans originated by the Bank are amortized over periods as long as 30 years, but typically are repaid over shorter periods.

Fixed-rate loans secured by one- to four-family residences have contractual maturities up to 30 years, and are generally fully amortizing with payments due monthly. These loans normally remain outstanding for a substantially shorter period of time because of refinancing and other prepayments. A significant change in the interest rate environment can alter the average life of a residential loan portfolio. The one- to four-family fixed-rate loans do not contain prepayment penalties. At June 30, 2014, one- to four-family loans with a fixed rate totaled $104.6 million, and had a weighted-average maturity of 169 months.

The Bank currently originates one- to four-family adjustable rate mortgage (“ARM”) loans, which adjust annually, after an initial period of one, three, five, or seven years . Typically, originated ARM loans secured by owner occupied properties reprice at a margin of 2.75% to 3.00% over the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year (“CMT”). Generally, ARM loans secured by non-owner occupied residential properties reprice at a margin of 3.75% over the CMT index. Current residential ARM loan originations are subject to annual and lifetime interest rate caps and floors. As a consequence of using interest rate caps, initial rates which may be at a premium or discount, and a "CMT" loan index, the interest earned on the Bank's ARMs will react differently to changing interest rates than the Bank's cost of funds. At June 30, 2014, one- to four-family loans tied to the CMT index totaled $108.6 million. One- to four-family loans tied to other indices totaled $7.0 million.

In underwriting one- to four-family residential real estate loans, the Bank evaluates the borrower's ability to meet debt service requirements at current as well as fully indexed rates for ARM loans, as well as the value of the property securing the loan. Most properties securing real estate loans made by the Bank during fiscal 2014 had appraisals performed on them by independent fee appraisers approved and qualified by the Board of Directors. The Bank generally requires borrowers to obtain title insurance and fire, property and flood insurance (if indicated) in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the security property.

The Company also originates loans secured by multi-family residential properties that are often located outside the Company’s primary market area, but made to borrowers who operate within the primary market area. At June 30, 2014, the Bank had $87.2 million, or 10.8% of net loans receivable, in multi-family residential real estate. The majority of the multi-family residential loans that are originated by the Bank are amortized over periods generally up to 25 years, with balloon maturities up to ten years. Both fixed and adjustable interest rates are offered and it is typical for the Company to include an interest rate “floor” and “ceiling” in these loan agreements. Variable rate loans typically adjust daily, monthly, quarterly or annually based on the Wall Street prime interest rate. Generally, multi-family residential loans do not exceed 85% of the lower of the appraised value or purchase price of the secured property. The Company generally requires a Board-approved independent certified fee appraiser to be engaged in determining the collateral value. As a general rule, the Company requires the unlimited guaranty of all individuals (or entities) owning (directly or indirectly) 20% or more of the stock of the borrowing entity.

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

Commercial Real Estate Lending. The Bank actively originates loans secured by commercial real estate including land (improved and unimproved), strip shopping centers, retail establishments, nursing homes or other healthcare related facilities, and other businesses generally located in the Bank's primary market area. At June 30, 2014, the Bank had $308.5 million in commercial real estate loans, which represented 38.5% of net loans receivable. Of this amount, $63.8 million were loans secured by agricultural properties. The increase over the last several fiscal years in agricultural lending is the result of an intentional focus by the Bank on that segment of our market, including the hiring of personnel with knowledge of agricultural lending and experience in that type of business development. The Company expects to continue to grow its agricultural lending portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Company expects to continue to maintain or increase the percentage of commercial real estate loans in its total portfolio.

Most commercial real estate loans originated by the Bank generally are based on amortization schedules of up to 20 years with monthly principal and interest payments. Generally, the interest rate received on these loans is fixed for a maturity for up to five years, with a balloon payment due at maturity. Alternatively, for some loans, the interest rate adjusts at least annually after an initial period up to five years, based upon the Wall Street prime rate. The Bank typically includes an interest rate "floor" in the loan agreement. The Bank's fixed-rate commercial real estate portfolio has a weighted average maturity of 43 months. Variable rate commercial real estate originations typically adjust daily, monthly, quarterly or annually based on the Wall Street prime rate. Generally, improved commercial real estate loan amounts do not exceed 80% of the lower of the appraised value or the purchase price of the secured property. Agricultural real estate terms offered differ slightly, with amortization schedules of up to 25 years with an 80% loan-to-value ratio, or 30 years with a 75% loan-to-value ratio. Agricultural real estate loans generally require an annual payment. Before credit is extended, the Bank analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property and the value of the property itself. Generally, personal guarantees are obtained from the borrower in addition to obtaining the secured property as collateral for such loans. The Bank also generally requires appraisals on properties securing commercial real estate to be performed by a Board-approved independent certified fee appraiser.

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

Construction Lending. The Bank originates real estate loans secured by property or land that is under construction or development. At June 30, 2014, the Bank had $40.7 million, or 5.09% of net loans receivable in construction loans outstanding.

Construction loans originated by the Bank are generally secured by mortgage loans for the construction of owner occupied residential real estate or to finance speculative construction secured by residential real estate, land development, or owner-operated or non-owner occupied commercial real estate. At June 30, 2014, $11.0 million of the Bank's construction loans were secured by one- to four-family residential real estate (of which $3.0 million was for speculative construction), $4.4 million of which were secured by multi-family residential real estate, and $21.5 million of which were secured by commercial real estate. During construction, these loans typically require monthly interest-only payments and have maturities ranging from 6 to 12 months. Once construction is completed, permanent construction loans may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally up to 20 years on commercial real estate.

Speculative construction and land development lending generally affords the Bank an opportunity to receive higher interest rates and fees with shorter terms to maturity than those obtainable from residential lending. Nevertheless, construction and land development lending is generally considered to involve a higher level of credit risk than one- to four-family residential lending due to (i) the concentration of principal among relatively few borrowers and development projects, (ii) the increased difficulty at the time the loan is made of accurately estimating building or development costs and the selling price of the finished product, (iii) the increased difficulty and costs of monitoring and disbursing funds for the loan, (iv) the higher degree of sensitivity to increases in market rates of interest and changes in local economic conditions, and (v) the increased difficulty of working out problem loans. Due in part to these risk factors, the Bank may be required from time to time to modify or extend the terms of some of these types of loans. In an effort to reduce these risks, the application process includes a submission to the Bank of accurate plans, specifications and costs of the project to be constructed. These items are also used as a basis to determine the appraised value of the subject property. Loan amounts are generally limited to 80% of the lesser of current appraised value and/or the cost of construction.

Consumer Lending. The Bank offers a variety of secured consumer loans, including home equity, direct and indirect automobile loans, second mortgages, mobile homes and loans secured by deposits. The Bank originates substantially all of its consumer loans in its primary market area. Usually, consumer loans are originated with fixed rates for terms of up to five years, with the exception of home equity lines of credit, which are variable, tied to the prime rate of interest, and are for a period of ten years. At June 30, 2014, the Bank's consumer loan portfolio totaled $35.2 million, or 4.40% of net loans receivable.

Home equity loans represented 50.9% of the Bank's consumer loan portfolio at June 30, 2014, and totaled $17.9 million, or 2.24% of net loans receivable.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are issued up to 100% of the appraised or assessed value of the property securing the line of credit, less the outstanding balance on the first mortgage. Interest rates on the HELOCs are adjustable and are tied to the current prime interest rate, generally with an interest rate floor in the loan agreement. This rate is obtained from the Wall Street Journal and adjusts on a daily basis. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity. HELOCs, which are secured by residential properties, are secured by stronger collateral than automobile loans and because of the adjustable rate structure, contain less interest rate risk to the Bank. Lending up to 100% of the value of the property presents greater credit risk to the Bank. Consequently, the Bank limits this product to customers with a favorable credit history. At June 30, 2014, lines of credit up to 80% of the property value represented 82.7% of outstanding balances, and 86.3% of balances and commitments; lines of credit for more than 80%, but not exceeding 90%, of the property value represented 17.1% of outstanding balances and 13.5% of balances and commitments; and lines of credit in excess of 90% of the property value represented 0.2% of outstanding balances and 0.1% of balances and commitments.

Automobile loans represented 23.50% of the Bank's consumer loan portfolio at June 30, 2014, and totaled $8.3 million, or 1.03% of net loans receivable. Of that total, an immaterial amount was originated by auto dealers. Typically, automobile loans are made for terms of up to 60 months for new and used vehicles. Loans secured by automobiles have fixed rates and are generally made in amounts up to 100% of the purchase price of the vehicle.

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

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

Commercial Business Lending. The Bank's commercial business lending activities encompass loans with a variety of purposes and security, including loans to finance accounts receivable, inventory, equipment and operating lines of credit. At June 30, 2014, the Bank had $141.1 million in commercial business loans outstanding, or 17.6% of net loans receivable. Of this amount, $53.4 million were loans related to agriculture, including amortizing equipment loans and annual production lines. The increase over the last several fiscal years in agricultural lending is the result of an intentional focus by the Bank on that segment of our market, including the hiring of personnel with knowledge of agricultural lending and experience in that type of business development. The Company expects to continue to grow its agricultural lending portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Bank expects to continue to maintain the current percentage of commercial business loans in its total loan portfolio.

The Bank currently offers both fixed and adjustable rate commercial business loans. At year end, the Bank had $87.0 million in fixed rate and $54.1 million of adjustable rate commercial business loans. The adjustable rate business loans typically reprice daily, monthly, quarterly, or annually, in accordance with the Wall Street prime rate of interest. The Bank typically includes an interest rate "floor" in the loan agreement.

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

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

Contractual Obligations and Commitments, Including Off-Balance Sheet Arrangements. The following table discloses our fixed and determinable contractual obligations and commercial commitments by payment date as of June 30, 2014. Commitments to extend credit totaled $112.8 million at June 30, 2014.

	Less Than 1 year	1-3 Years	4-5 years	More Than 5 Years	Total
			(In thousands)		
Federal Home Loan Bank advances	$59,900	$10,523	$15,049	$---	$85,472
Certificates of deposit	138,228	105,591	79,353	---	323,172
Total	$198,128	$116,114	$94,402	$---	$408,644

	Less Than 1 year	1-3 Years	4-5 years	More Than 5 Years	Total
			(In thousands)		
Construction loans in process	$19,261	$---	$---	$---	$19,261
Other commitments	73,660	8,765	2,152	8,995	93,572
	$92,921	$8,765	$2,152	$8,995	$112,833

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2014, regarding the dollar amount of loans maturing or repricing in the Bank's portfolio based on their contractual terms to maturity or repricing, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Mortgage loans that have adjustable rates are shown as maturing at their next repricing date. Listed loan balances are shown before deductions for undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
			(In thousands)		
Residential real estate	$24,980	$114,591	$57,499	$106,831	$303,901
Commercial real estate	80,648	189,670	29,899	8,302	308,519
Construction	39,233	1,505	---	---	40,738
Consumer	4,829	15,676	14,684	34	35,223
Commercial business	83,353	49,619	2,905	5,196	141,073
Total loans	$233,043	$371,061	$104,987	$120,363	$829,454

As of June 30, 2014, loans with a maturity date after June 30, 2015 with fixed interest rates totaled $331.0 million, and loans with a maturity date after June 30, 2015 with adjustable rates totaled $265.4 million.

Loan Originations, Sales and Purchases

Generally, all loans are originated by the Bank's staff, who are salaried loan officers. Loan applications are generally taken and processed at each of the Bank's full-service locations, and the Bank recently began processing online applications for single-family residential loans. The Bank also offers secondary market loans to its customers.

While the Bank originates both adjustable-rate and fixed-rate loans, the ability to originate loans is dependent upon the relative customer demand for loans in its market. In fiscal 2014, the Bank originated $289.7 million of loans, compared to $250.2 million and $200.8 million, respectively, in fiscal 2013 and 2012, respectively. Of these loans, mortgage loan originations were $226.2 million, $192.4 million, and $138.4 million, respectively, in fiscal 2014, 2013, and 2012.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2014, the Bank purchased $10.1 million of new loan participations. At June 30, 2014, loan participations totaled $13.4 million, or 1.67% of net loans receivable. At June 30, 2014, all of these participations were performing in accordance to their respective terms. The Bank evaluates additional loan participations on an ongoing basis, based in part on local loan demand, liquidity, portfolio and capital levels.

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

	Year Ended June 30,		
	2014	2013	2012
	(Dollars in thousands)		
Total loans at beginning of period	$666,201	$608,142	$571,218
Loans originated:			
One-to four-family residential	64,612	55,841	47,403
Multi-family residential and commercial real estate	130,609	112,964	68,559
Construction loans	31,026	23,581	22,477
Commercial business	50,713	48,652	44,972
Consumer and others	12,756	9,181	17,398
Total loans originated	289,716	250,219	200,809
Loans purchased:			
Total loans purchased	61,473	2,653	839
Loans sold:			
Total loans sold	(22,314)	(15,322)	(11,914)
Principal repayments	(163,581)	(168,614)	(146,123)
Participation principal repayments	(1,532)	(6,481)	(5,421)
Foreclosures	(509)	(4,396)	(1,266)
Net loan activity	163,253	58,059	36,924
Total loans at end of period	$829,454	$666,201	$608,142

Loan Commitments

The Bank issues commitments for one- to four-family residential mortgage loans, operating or working capital lines of credit, and standby letters-of-credit. Such commitments may be oral or in writing with specified terms, conditions and at a specified rate of interest. The Bank had outstanding net loan commitments of approximately $112.8 million at June 30, 2014. See Note 15 of Notes to the Consolidated Financial Statements contained in Item 8.

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Loan Fees

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

Asset Quality

Delinquent Loans. Generally, when a borrower fails to make a required payment on mortgage or installment loans, the Bank begins the collection process by mailing a computer generated notice to the customer. If the delinquency is not cured promptly, the customer is contacted again by notice or telephone. After an account secured by real estate becomes over 60 days past due, the Bank will typically send a 30-day demand notice to the customer which, if not cured or unless satisfactory arrangements have been made, will lead to foreclosure. Foreclosure may not begin until the loan reaches 120 days delinquency in the case of consumer residential loans. For consumer loans, the Missouri Right-To-Cure Statute is followed, which requires issuance of specifically worded notices at specific time intervals prior to repossession or further collection efforts.

The following table sets forth the Bank's loan delinquencies by type and by amount at June 30, 2014.

	Loans Delinquent For:					
	60-89 Days		90 Days and Over		Total Loans Delinquent 60 Days or More	
	Numbers	Amounts	Numbers	Amounts	Numbers	Amounts
			(Dollars in thousands)			
Residential real estate	3	$51	13	$451	16	$502
Commercial real estate	---	---	1	18	1	18
Commercial non-real estate	2	431	6	347	8	778
Other consumer	4	30	7	34	11	64
Totals	9	$512	27	$850	36	$1,362

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

For information regarding accrual of interest on impaired loans, see Note 1 of Notes to the Consolidated Financial Statements contained in Item 8.

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

The following table sets forth information with respect to the Bank's non-performing assets as of the dates indicated.

	At June 30,									
	2014		2013		2012		2011		2010	
	(Dollars in thousands)									
Nonaccruing loans:										
Residential real estate	$444		$414		$395		$97		$154	
Commercial real estate	673		157		977		152		51	
Consumer	58		24		16		12		24	
Commercial business	91		842		1,010		2		9	
Total	1,266		1,437		2,398		263		238	
Loans 90 days past due accruing interest:										
Residential real estate	106		---		---		189		9	
Commercial real estate	18		---		---		125		---	
Consumer	6		---		---		122		51	
Commercial business	---		---		---		2		34	
Total	130		---		---		438		94	
Total nonperforming loans	1,396		1,437		2,398		701		332	
Nonperforming investments	---		125		125		125		125	
Foreclosed assets held for sale:										
Real estate owned	2,912		3,030		1,426		1,515		1,501	
Other nonperforming assets	65		46		9		34		90	
Total nonperforming assets	$4,373		$4,638		$3,958		$2,375		$2,048	
Total nonperforming loans to net loans	0.17	%	0.22	%	0.41	%	0.13	%	0.08	%
Total nonperforming loans to total assets	0.14	%	0.18	%	0.32	%	0.10	%	0.06	%
Total nonperforming assets to total assets	0.43	%	0.58	%	0.54	%	0.35	%	0.37	%

At June 30, 2014, troubled debt restructurings (TDRs) totaled $5.1 million, of which $300,000 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $4.8 million in TDRs have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans. At June 30, 2013, troubled debt restructurings (TDRs) totaled $5.6 million, of which $700,000 was considered nonperforming and was included in the nonaccrual loan total above. In general, these loans were subject to classification as TDRs at June 30, 2014, on the basis of guidance under ASU 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, 2009 through 2011, the Company had no restructured loans within the meaning of ASC Topic 310.

Real Estate Owned. Real estate properties acquired through foreclosure or by deed in lieu of foreclosure are recorded at the lower of cost or fair value, less estimated disposition costs. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Management periodically updates real estate valuations and if the value declines, a specific provision for losses on such property is established by a charge to operations. At June 30, 2014, the Company's balance of real estate owned totaled $2.9 million and included $500,000 residential and $2.4 million non-residential properties.

Asset Classification. Applicable regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, regulatory examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. When an insured institution classifies problem assets as loss, it charges off the balance of the assets. Assets which do not currently expose the Bank to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses, may be designated as special mention. The Bank's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the FRB and the Missouri Division of Finance, which can order the establishment of additional loss allowances.

On the basis of management's review of the assets of the Company, at June 30, 2014, classified assets totaled $11.6 million, or 1.14% of total assets as compared $10.2 million, or 1.28% of total assets at June 30, 2013. Of the amount classified as of June 30, 2014, $11.6 million was considered substandard, while none was considered doubtful or loss. At June 30, 2014, significant classified assets included one loan relationship with outstanding classified balances of $1.7 million secured by commercial real estate, aircraft, and a general business lien (an additional $4.1 million outstanding to this borrower is not classified, due to a USDA guarantee); foreclosed real estate and repossessed assets totaling $3.0 million; and all of the Company's investments in pooled trust preferred securities, with a book value of $1.6 million. Classified loans are so designated due to concerns regarding the borrower’s ability to generate sufficient cash flows to service the debt. The investments in pooled trust preferred securities were classified due to concerns about the ability of the pools to generate sufficient cash flows to service the debt. Two of these securities, with a book value of $629,000, have previously deferred interest payments, and another of these securities, with a book value of $460,000, continues to defer interest payments as of June 30, 2014. All other material classified assets were performing in accordance with terms at June 30, 2014.

Other Loans of Concern. In addition to the classified assets discussed above, there was also an aggregate of $1.7 million in loans, with respect to which management has doubts as to the ability of the borrowers to continue to comply with present loan repayment terms, which may ultimately result in the classification of such assets. These loans continued to perform according to terms as of June 30, 2014, but were identified as other loans of concern due to concerns regarding the borrower’s ability to continue to generate sufficient cash flows to service the debt .

Allowance for Loan Losses. The Bank's allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of loan activity, including those loans which are being specifically monitored. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate provision for loan losses. These provisions for loan losses are charged against earnings in the year they are established. The Bank had an allowance for loan losses at June 30, 2014, of $9.3 million, which represented 212% of nonperforming assets as compared to an allowance of $8.4 million, which represented 165% of nonperforming assets at June 30, 2013.

At June 30, 2014, the Bank also had an allowance for credit losses on off-balance sheet credit exposures of $596,000, as compared to $497,000 at June 30, 2013. This amount is maintained as a separate liability account to cover estimated potential credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees.

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

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

	Year Ended June 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Allowance at beginning of period	$8,386	$7,492	$6,438	$4,508	$3,992
Recoveries					
Residential real estate	16	4	7	3	8
Construction real estate	---	1	1	25	---
Commercial real estate	1	5	---	1	3
Commercial business	17	8	16	7	5
Consumer	95	16	15	18	5
Total recoveries	129	34	39	54	21
Charge offs:					
Residential real estate	169	302	98	158	153
Construction real estate	---	35	---	158	---
Commercial real estate	96	422	41	60	76
Commercial business	59	50	436	67	118
Consumer	578	47	195	66	83
Total charge offs	902	856	770	509	430
Net charge offs	(773)	(822)	(731)	(455)	(409)
Provision for loan losses	1,646	1,716	1,785	2,385	925
Balance at end of period	$9,259	$8,386	$7,492	$6,438	$4,508
Ratio of allowance to total loans outstanding at the end of the period	1.14%	1.28%	1.27%	1.14%	1.06%
Ratio of net charge offs to average loans outstanding during the period	0.10%	0.13%	0.13%	0.09%	0.10%

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

	At June 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Residential real estate	$2,462	36.64 %	$1,810	35.11 %	$1,635	33.05 %	$1,618	34.99 %	$902	36.71 %
Construction	355	4.91	273	4.61	243	6.61	193	5.24	198	6.47
Commercial real estate	4,143	37.19	3,602	36.37	2,986	33.04	2,671	32.41	1,605	28.14
Consumer	519	4.25	472	4.27	484	4.77	441	5.25	473	6.10
Commercial business	1,780	17.01	2,229	19.64	2,144	22.53	1,515	22.11	1,330	22.58
Total allowance for loan losses	$9,259	100.00 %	$8,386	100.00 %	$7,492	100.00 %	$6,438	100.00 %	$4,508	100.00 %

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Investment Activities

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

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

Investment purchases and/or sales must be authorized by the appropriate party, depending on the aggregate size of the investment transaction, prior to any investment transaction. The Board of Directors reviews all investment transactions. All investment purchases are identified as available-for-sale ("AFS") at the time of purchase. The Company has not classified any investment securities as held-to-maturity over the last five years. Securities classified as "AFS" must be reported at fair value with unrealized gains and losses recorded as a separate component of stockholders' equity. At June 30, 2014, AFS securities totaled $130.2 million (excluding FHLB and FRB membership stock). For information regarding the amortized cost and market values of the Company's investments, see Note 2 of Notes to the Consolidated Financial Statements contained in Item 8.

In the Fiscal 2014 Acquisitions, the Company acquired securities with a market value of approximately $84.8 million.

As of June 30, 2014, the Company had no derivative instruments and no outstanding hedging activities. Management has reviewed potential uses for derivative instruments and hedging activities, but has no immediate plans to employ these tools.

Debt and Other Securities. At June 30, 2014, the Company's debt and other securities portfolio totaled $72.1 million, or 7.06% of total assets as compared to $63.2 million, or 7.94% of total assets at June 30, 2013. During fiscal 2014, the Bank had $6.4 million in maturities and $5.8 million in security purchases (purchases do not include the securities acquired in the Fiscal 2014 Acquisitions). Of the securities that matured, $5.9 million was called for early redemption. At June 30, 2014, the investment securities portfolio included $24.1 million in U.S. government and government agency bonds, of which $22.1 million is subject to early redemption at the option of the issuer, and $45.4 million in municipal bonds, of which $40.2 million is subject to early redemption at the option of the issuer. The remaining portfolio consists of $2.6 million in other securities (including $871,000 estimated fair value in pooled trust preferred securities). Based on projected maturities, the weighted average life of the debt and other securities portfolio at June 30, 2014, was 52 months. Membership stock held in the FHLB of Des Moines and Dallas, totaling $4.6 million, and the FRB of St. Louis, totaling $1.4 million, along with equity stock of $438,000 in a banker’s bank, was not included in the above totals.

At June 30, 2014, the Company owned four pooled trust preferred securities with a fair value of $532,000 and a book value of $1.6 million. The June 30, 2014, cash flow analysis for three of these securities indicated it is probable the Company will receive all contracted principal and related interest projected. The cash flow analysis used in making this determination was based on anticipated default, recovery, and prepayment rates, and the resulting cash flows were discounted based on the yield anticipated at the time the securities were purchased. 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 June 30, 2014, cash flow analyses showed it is probable the Company will receive all of the remaining cost basis and related interest projected for the security.

Analyses performed quarterly and at fiscal year end in 2014 indicated no further impairment of any securities owned by the Company. See Note 2 of Notes to the Consolidated Financial Statements contained in Item 8.

Mortgage-Backed Securities. At June 30, 2014, MBS totaled $58.2 million, or 5.7%, of total assets, as compared to $16.7 million, or 2.1%, of total assets at June 30, 2013. During fiscal 2014, the Bank had maturities and prepayments of $6.7 million and $11.0 million in purchases of MBS (purchases do not include the Fiscal 2014 Acquisitions). At June 30, 2014, the MBS portfolio included $2.7 million in adjustable-rate MBS, $42.5 million in fixed-rate MBS, and $13.0 million in fixed rate collateralized mortgage obligations (CMOs), all of which passed the Federal Financial Institutions Examination Council's sensitivity test. Based on projected prepayment rates, the weighted average life of the MBS and CMOs at June 30, 2014, was 54 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual prepayment rates.

Investment Securities Analysis

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

	At June 30,								
	2014			2013			2012		
	Fair Value	Percent of Portfolio		Fair Value	Percent of Portfolio		Fair Value	Percent of Portfolio	
	(Dollars in thousands)								
U.S. government and government agencies	$24,074	30.83	%	$22,408	33.80	%	$18,100	30.73	%
State and political subdivisions	45,356	58.08		39,323	59.31		36,381	61.77	
Other securities	2,641	3.38		1,559	2.35		1,393	2.37	
FHLB membership stock	4,597	5.89		2,007	3.03		2,018	3.43	
FRB membership stock	1,424	1.82		1,004	1.51		1,001	1.70	
Total	$78,092	100.00	%	$66,301	100.00	%	$58,893	100.00	%

The following table sets forth the maturities and weighted average yields of AFS debt securities in the Company's investment securities portfolio and membership stock at June 30, 2014.

	Available for Sale Securities June 30, 2014			
	Amortized Cost	Fair Value	Tax-Equiv. Wtd.-Avg. Yield	
	(Dollars in thousands)			
U.S. government and government agency securities:				
Due within 1 year	$---	$---	---	%
Due after 1 year but within 5 years	13,904	13,683	1.29	
Due after 5 years but within 10 years	8,991	8,712	1.56	
Due over 10 years	1,712	1,679	2.25	
Total	24,607	24,074	1.45	%
State and political subdivisions:				
Due within 1 year	956	958	1.04	%
Due after 1 year but within 5 years	5,077	5,150	2.49	
Due after 5 years but within 10 years	13,827	14,332	4.90	
Due over 10 years	23,772	24,916	5.02	
Total	43,632	45,356	4.60	%
Other securities:				
Due within 1 year	---	---	---	%
Due after 1 year but within 5 years	1,239	1,289	3.26	
Due after 5 years but within 10 years	---	---	---	
Due over 10 years	2,055	1,352	0.91	
Total	3,294	2,641	1.79	%
No stated maturity:				
FHLB membership stock	4,597	4,597	2.33	%
FRB membership stock	1,424	1,424	5.50	
Total	6,021	6,021	1.32	%
Total debt and other securities	$77,554	$78,092	3.23	%

The following table sets forth certain information at June 30, 2014 regarding the dollar amount of MBS and CMOs at amortized cost due, based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. MBS and CMOs that have adjustable rates are shown at amortized cost as maturing at their next repricing date.

	At June 30, 2014 (In thousands)
Amounts due:	
Within 1 year	$ 1
After 1 year through 3 years	268

After 3 years through 5 years		1,183
After 5 years		56,328
Total	$	57,780

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The following table sets forth the dollar amount of all MBS and CMOs at amortized cost due, based on their contractual terms to maturity, one year after June 30, 2014, which have fixed, floating, or adjustable interest rates.

	At June 30, 2014 (In thousands)
Interest rate terms on amounts due after 1 year:	
Fixed	$ 55,073
Adjustable	2,706
Total	$ 57,779

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

	At June 30,					
	2014		2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
FHLMC certificates	$14,008	$14,189	$3,405	$3,509	$3,420	$3,666
GNMA certificates	4,228	4,248	70	72	79	81
FNMA certificates	26,470	26,784	2,701	2,846	4,437	4,694
Collateralized mortgage obligations issued						
by government agencies	13,074	12,930	10,404	10,287	10,758	10,812
Total	$57,780	$58,151	$16,580	$16,714	$18,694	$19,253

Deposit Activities and Other Sources of Funds

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

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

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

The Bank will periodically promote a particular deposit product as part of the Bank's overall marketing plan. Deposit products have been promoted through various mediums, which include radio and newspaper advertisements, as well as “grassroots” marketing techniques, such as sponsorship of – or activity at – community events. The emphasis of these campaigns is to increase consumer awareness and market share of the Bank.

The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. Based on its experience, the Bank believes that its deposits are relatively stable sources of funds. However, the ability of the Bank to attract and maintain certificates of deposit, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. The following table depicts the composition of the Bank's deposits as of June 30, 2014:

As of June 30, 2014					
Weighted Average Interest Rate	Term	Category	Minimum Amount	Balance (In thousands)	Percentage of Total Deposits
0.00 %	None	Non-interest Bearing	$ 100	$ 68,113	8.67 %
1.01	None	NOW Accounts	100	271,156	34.51
0.34	None	Savings Accounts	100	95,327	12.13
0.27	None	Money Market Deposit Accounts	1,000	28,033	3.57
		Certificates of Deposit			
0.57	Less than 6 months	Fixed Rate/Term	1,000	24,356	3.10
0.48	Less than 6 months	IRA Fixed Rate/Term	1,000	1,839	0.23
0.85	7-12 months	Fixed Rate/Term	1,000	102,356	13.03
0.73	7-12 months	IRA Fixed Rate/Term	1,000	9,677	1.23
1.00	13-24 months	Fixed Rate/Term	1,000	67,274	8.56
0.99	13-24 months	IRA Fixed Rate/Term	1,000	10,986	1.40
1.00	13-24 months	IRA Variable Rate/Fixed Term	1,000	---	---
1.60	25-36 months	Fixed Rate/Term	1,000	24,064	3.06
1.61	25-36 months	IRA Fixed Rate/Term	1,000	3,267	.42
2.44	48 months and more	Fixed Rate/Term	1,000	56,620	7.21
2.40	48 months and more	IRA Fixed Rate/Term	1,000	22,733	2.88
				$ 785,801	100.00 %

The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2014. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are generally negotiable.

Maturity Period	Amount (In thousands)
Three months or less	$ 25,795
Over three through six months	31,429
Over six through twelve months	54,299
Over 12 months	65,981
Total	$ 177,504

Time Deposits by Rates

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

	At June 30, 2014	2013	2012
	(In thousands)		
0.00 - 0.99%	$ 182,970	$ 129,001	$ 59,459
1.00 - 1.99%	107,467	98,757	106,610
2.00 - 2.99%	19,113	24,345	37,864
3.00 - 3.99%	13,523	19,431	24,186
4.00 - 4.99%	100	708	2,499
5.00 - 5.99%	---	---	696
Total	$ 323,173	$ 272,242	$ 231,314

The following table sets forth the amount and maturities of all time deposits at June 30, 2014.

	Amount Due						
	Less Than One Year	1-2 Years	2-3 Years	3-4 Years	After 4 Years	Total	Percent of Total Certificate Accounts
	(Dollars in thousands)						
0.00 - 0.99%	$147,150	$32,105	$3,651	$34	$30	$182,970	56.08 %
1.00 - 1.99%	40,274	17,744	12,837	23,964	12,648	107,467	33.42
2.00 - 2.99%	6,601	8,447	3,382	633	50	19,113	5.98
3.00 - 3.99%	7,771	5,734	18	---	---	13,523	4.49
4.00 - 4.99%	---	100	---	---	---	100	0.03
5.00 - 5.99%	---	---	---	---	---	---	---
Total	$201,796	$64,130	$19,888	$24,631	$12,728	$323,173	100.00 %

Deposit Flow

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

	At June 30,								
	2014			2013			2012		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
	(Dollars in thousands)								
Noninterest bearing	$68,112	8.67 %	$22,671	$45,442	7.19 %	$(9,371)	$54,813	9.37 %	$21,965
NOW checking	271,156	34.51	63,108	208,048	32.90	14,177	193,870	33.15	41,395
Savings accounts	95,327	12.13	10,954	84,373	13.34	(2,344)	86,717	14.83	(7,662)
Money market deposit	28,033	3.57	5,758	22,275	3.52	4,176	18,099	3.09	2,297
Fixed-rate certificates which mature(1):									
Within one year	207,367	26.39	46,499	160,868	25.44	1,995	158,873	27.17	(22,351)
Within three years	78,447	9.98	(3,603)	82,050	12.97	32,386	49,664	8.49	(11,613)
After three years	37,359	4.75	8,264	29,095	4.60	6,554	22,542	3.85	643
Variable-rate certificates which mature:									
Within one year	---	---	(130)	130	0.02	130	---	0.00	(123)
Within three years	---	---	(98)	98	0.02	(138)	236	0.04	112
Total	$785,801	100.00%	$153,423	$632,379	100.00%	$47,565	$584,814	100.00%	$24,663

(1) At June 30, 2014, 2013 and 2012, certificates in excess of $100,000 totaled $177.5 million, $152.4 million and $117.4 million, respectively.

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

	At June 30,		
	2014	2013	2012
		(In thousands)	
Beginning Balance	$632,379	$584,814	$560,151
Net increase before interest credited	147,459	41,492	17,817
Interest credited	5,963	6,073	6,846
Net increase in deposits	153,422	47,565	24,663
Ending balance	$785,801	$632,379	$584,814

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

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

Although deposits are the Bank's primary and preferred source of funds, the Bank has actively used FHLB advances. The Bank's general policy has been to utilize borrowings to meet short-term liquidity needs, or to provide a longer-term source of funding loan growth when other cheaper funding sources are unavailable or to aide in asset/liability management. As of June 30, 2014, the Bank had $85.4 million in FHLB advances, of which $59.9 million was overnight borrowings, another $25.0 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years, and $500,000 in fixed term borrowings. In order for the Bank to borrow from the FHLB, it has pledged $396.4 million of its residential and commercial real estate loans to the FHLB (although the actual collateral required for advances taken and letters of credit issued amounts to $127,518 million) and has purchased $4.6 million in FHLB stock. At June 30, 2014, the Bank had additional borrowing capacity on its pledged residential and commercial real estate loans from the FHLB of $195.8 million, as compared to $189.0 million at June 30, 2013.

Additionally, the Bank is approved to borrow from the FRB's discount window on a primary credit basis. Primary credit is available to approved institutions on a generally short-term basis at the "discount rate" set by the FOMC. The Bank has pledged agricultural real estate and other loans to farmers as collateral for any amounts borrowed through the discount window. As of June 30, 2014, the Bank was approved to borrow up to $72.8 million through the discount window, but no balance was outstanding.

Also classified as borrowings are the Bank's securities sold under agreements to repurchase ("repurchase agreements"). These agreements are typically entered into with local public units or corporations. Generally, the Bank pays interest on these agreements at a rate similar to those available on repurchase agreements with wholesale funding sources, but in the current rate environment the Bank is paying a rate slightly higher than the market for such funding. The Bank views repurchase agreements with local entities as a stable funding source, and collateral requirements relating to public units are somewhat easier to manage using repurchase agreements. At June 30, 2014, the Bank had outstanding $25.6 million in repurchase agreements, as compared to $27.8 million at June 30, 2013.

Southern Missouri Statutory Trust I, a Delaware business trust subsidiary of the Company, issued $7.0 million in Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of $1,000 per share in March, 2004. The securities are due in 30 years, were redeemable after five years and bear interest at a floating rate based on LIBOR. At June 30, 2014, the current rate was 2.98%. The securities represent undivided beneficial interests in the trust, which was established by Southern Missouri Bancorp for the purpose of issuing the securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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

In its October 2013 acquisition of Ozarks Legacy Community Financial, Inc. (OLCF), the Company assumed $3.1 million in floating rate junior subordinated debt securities. The securities had been issued in June 2005 by OLCF, bear interest at a floating rate based on LIBOR, and mature in 2035. At June 30, 2014, the current rate was 2.68%.

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

	Year Ended June 30,		
	2014	2013	2012
	(Dollars in thousands)		
Year end balances			
Short-term FHLB advances	$---	$---	$---
Securities sold under agreements to repurchase	25,561	27,788	25,642
Total short-term borrowings	$25,561	$27,788	$25,642
Weighted average rate at year end	0.50 %	0.58 %	0.77 %

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

	Year Ended June 30,		
	2014	2013	2012
	(Dollars in thousands)		
FHLB advances			
Daily average balance	$58,926	$30,374	$30,624
Weighted average interest rate	1.84 %	3.29 %	4.03 %
Maximum outstanding at any month end	$85,400	$45,270	$33,500
Securities sold under agreements to repurchase			
Daily average balance	$24,492	$27,359	$26,956
Weighted average interest rate	0.53 %	0.74 %	0.87 %
Maximum outstanding at any month end	$26,897	$30,945	$29,949
Subordinated Debt			
Daily average balance	$9,011	$7,217	$7,217
Weighted average interest rate	3.35 %	3.15 %	3.22 %
Maximum outstanding at month end	$10,310	$7,217	$7,217

Subsidiary Activities

The Bank has one subsidiary, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2014, and is currently inactive. The activities of the subsidiary are not significant to the financial condition or results of the Bank's operations.

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REGULATION

The following is a brief description of certain laws and regulations applicable to the Company and the Bank. Descriptions of laws and regulations here and elsewhere in this prospectus do not purport to be complete and are qualified in their entirety by reference to the actual laws and regulations. Legislation is introduced from time to time in the United States Congress or the Missouri state legislature that may affect the operations of the Company and the Bank. In addition, the regulations governing us may be amended from time to time. Any such legislation or regulatory changes in the future could adversely affect our operations and financial condition.

Recent Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") imposed various restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The following discussion summarizes significant aspects of the Dodd-Frank Act that may affect the Bank and the Company. For certain of these changes, implementing regulations have not been promulgated, so we cannot determine the full impact of the Dodd-Frank Act on our business and operations at this time.

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

- The Consumer Financial Protection Bureau ("CFPB"), an independent consumer compliance regulatory agency within the Federal Reserve has been established. The CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority over financial institutions with total assets of over $10 billion with respect to both new and existing consumer financial protection laws. Financial institutions with assets of less than $10 billion, like the Bank, will continue to be subject to supervision and enforcement by their primary federal banking regulator with respect to federal consumer financial protection laws. The CFPB also has authority to promulgate new consumer financial protection regulations and amend existing consumer financial protection regulations;

- The Federal Deposit Insurance Act was amended to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries;

- The prohibition on payment of interest on demand deposits was repealed;

- Deposit insurance was permanently increased to $250,000; and

- The deposit insurance assessment base for FDIC insurance is the depository institution's average consolidated total assets less the average tangible equity during the assessment period;

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

- Tier 1 capital treatment for "hybrid" capital items like trust preferred securities is eliminated subject to various grandfathering and transition rules. As required by the Act, the federal banking agencies have promulgated new rules on regulatory capital for both depository institutions and their holding companies;

- Public companies are required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years;

- A separate, non-binding shareholder vote is required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments;

- Securities exchanges are required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant;

- Stock exchanges are prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive

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officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information;

- Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

The Bank

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

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

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

Federal Reserve System. The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (checking, NOW and Super NOW checking accounts). At June 30, 2014, the Bank was in compliance with these reserve requirements.

The Bank is authorized to borrow from the Federal Reserve Bank "discount window." FRB regulations require associations to exhaust other reasonable alternative sources of funds, including FHLB borrowings, before borrowing from the FRB.

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

As a member, the Bank is required to purchase and maintain stock in the FHLB of Des Moines. At June 30, 2014, the Bank had $4.6 million in FHLB stock, which was in compliance with this requirement. The Bank received $90,000 and $54,000 in dividends from the FHLB of Des Moines for the years ended June 30, 2014 and 2013, respectively.

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

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

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must designate a reserve ratio, known as the designated reserve ratio or DRR, which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

The Dodd-Frank Act requires the FDIC’s deposit insurance assessments to be based on assets instead of deposits. The FDIC has issued rules which specify that the assessment base for a bank is equal to its total average consolidated assets less average tangible equity. The FDIC assessment rates range from approximately 2.5 basis points to 45 basis points, depending on applicable adjustments for unsecured debt issued by an institution and brokered deposits (and to further adjustment for institutions that hold unsecured debt of other FDIC-insured institutions), until such time as the FDIC’s reserve ratio equals 1.15%. Once the FDIC’s reserve ratio reaches 1.15% and the reserve ratio for the immediately prior assessment period is less than 2.0%, the applicable assessment rates may range from 1.5 basis points to 40 basis points (subject to adjustments as described above). If the reserve ratio for the prior assessment period is equal to, or greater than 2.0% and less than 2.5%, the assessment rates may range from 1.0 basis points to 38 basis points and if the reserve ratio for the prior assessment period is greater than 2.5%, the assessment rates may range from 0.5 basis points to 35 basis points (in each case subject to adjustments as described above). No institution may pay a dividend if it is in default on its federal deposit insurance assessment.

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

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the fourth quarter ended June 30, 2014, was 0.62 basis points (annualized) of assessable deposits.

Prompt Corrective Action. Under the Federal Deposit Insurance Act ("FDIA"), each federal banking agency is required to implement a system of prompt corrective action for depository institutions that it regulates. The federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action. Under the regulations, an institution shall be deemed to be (i) "well capitalized" if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a leverage ratio of 5.0% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or more, has a Tier 1 risk-based capital ratio of 4.0% or more, has a leverage ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized;" (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than

8.0%, has a Tier 1 risk-based capital ratio that is less than 4.0% or has a leverage ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, has a Tier 1 risk-based capital ratio that is less than 3.0% or has a leverage ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

In connection with the new capital rules discussed under “New Capital Rules” below, effective January 1, 2015, an institution will be deemed to be “well capitalized” if it has (i) a total risk-based capital ratio of 10.0% or more, (ii) a common equity Tier 1 risk-based capital ratio of 6.5% or more, (iii) a Tier 1 risk-based capital ratio of 8.0% or more, and (iv) a leverage ratio of 5.0% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure.

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

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

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

A critically undercapitalized institution is subject to further restrictions and to appointment of a receiver or conservator 90 days after becoming critically undercapitalized unless the FDIC and, in the case of a state member Bank, the FRB concur that other action better serves the purposes of the prompt corrective action provisions.

At June 30, 2014, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FRB.

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

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

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

Guidance on Commercial Real Estate Concentrations. The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending. The particular focus is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be sensitive to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). A bank that has experienced rapid growth in commercial real estate lending, has notable exposure to a specific type of commercial real estate loan, or is approaching or exceeding the following supervisory criteria may be identified for further supervisory analysis with respect to real estate concentration risk.

Current Capital Requirements. The FRB's minimum capital standards applicable to FRB-regulated banks and savings banks require the most highly-rated institutions to meet a "Tier 1" leverage capital ratio of at least 3% of average total consolidated assets. Tier 1 (or "core capital") consists of common stockholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries minus all intangible assets other than limited amounts of purchased mortgage servicing rights and certain other accounting adjustments. All other banks must have a Tier 1 leverage ratio of at least 100-200 basis points above the 3% minimum. The FRB capital regulations establish a minimum leverage ratio of not less than 4% for banks that are not the most highly rated or are anticipating or experiencing significant growth.

FRB regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of total capital (which is defined as Tier 1 capital and Tier 2 or supplementary capital) to risk weighted assets of 8% and Tier 1 capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FRB believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage requirement. The components of supplementary capital currently include cumulative perpetual preferred stock, adjustable-rate perpetual preferred stock, mandatory convertible securities, term subordinated debt, intermediate-term preferred stock and allowance for possible loan and lease losses. Allowance for possible loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of Tier 1 capital. The FRB includes in its evaluation of a bank's capital adequacy an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates.

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

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

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

For a discussion of the Bank's capital position relative to its FRB capital requirements at June 30, 2014, see Note 13 of the Notes to the Consolidated Financial Statements contained in Item 8.

New Capital Rules. In July 2013, the FRB and the federal banking agencies published final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. These rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act. “Basel III” refers to various documents released by the Basel Committee on Banking Supervision.

Effective January 1, 2015, the Bank and the Company will be subject to new capital regulations (with some provisions transitioned into full effectiveness over two to four years). The new requirements create a new ratio for Common Equity Tier 1 (“CET1”) capital, increase the leverage and Tier 1 capital ratios, change the risk-weights of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of Southern Bank and the Company to pay dividends, repurchase shares or pay discretionary bonuses.

When these new requirements become effective, the minimum capital ratios with be a ratio of CET1 capital to total risk-weighted assets of 4.5%, a ratio of Tier 1 capital to risk-weighted assets of 6.0%, a ratio of total capital to risk-weighted assets of 8.0%, and a leverage ratio of 4.0%.

For all of these capital requirements, there are a number of changes in what constitutes regulatory capital, some of which are subject to a transition period. However, for a bank holding company with less than $15 billion in consolidated assets as of December 31, 2009, TARP and cumulative perpetual preferred stock included in Tier 1 capital prior to May 19, 2010 is grandfathered and included as Tier 1 capital under the new capital regulations.

Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be deducted from capital, subject to a two-year transition period. CET1 capital consists of Tier 1 capital less all capital components that are not considered common equity. In addition, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a two-year transition period. Because of its asset size, Southern Bank has the one-time option of deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of accumulated other comprehensive income in its capital calculations. Southern Bank is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new requirements also include changes in the risk-weights of certain assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%); a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk-weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, Southern Bank and the Company will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above each of the required minimum capital levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying certain discretionary bonuses. This new capital conservation buffer requirement is be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FRB's prompt corrective action standards will change when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, Southern Bank would be required to have at least a CET1 ratio of 6.5% (new), a Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged) and not be subject to specified requirements to meet and maintain a specific capital ratio for a capital measure.

Southern Bank has conducted a pro forma analysis of the application of these new capital requirements as of June 30, 2014. We have determined that Southern Bank meets all these new requirements, including the full 2.5% capital conservation buffer, and would remain well capitalized if these new requirements had been in effect on that date.

In addition, as noted above, beginning in 2016, if Southern Bank does not have the required capital conservation buffer, its ability to pay dividends to Southern Missouri Bancorp, Inc. would be limited.

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

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

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

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

Community Reinvestment Act. Banks are also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"), which requires the appropriate federal bank regulatory agency, in connection with its regular examination of a bank, to assess the bank's record in meeting the credit needs of the community serviced by the bank, including low and moderate income neighborhoods. The regulatory agency's assessment of the bank's record is made available to the public. Further, such assessment is required of any bank which has applied, among other things, to establish a new branch office that will accept deposits, relocate an existing office or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. The Bank received a "satisfactory" rating during its most recent CRA examination.

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

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

The Company

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

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

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

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

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

The FRB has established minimum leverage ratio and risk-based capital requirements for bank holding companies that are substantially the same as those for FRB-regulated banks. Effective January 1, 2015, the Company will be subject to the same capital requirements as described above for the Bank.

TAXATION

Federal Taxation

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

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

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

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

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

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

Missouri Taxation

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

Bank Franchise Tax. The Missouri bank franchise tax is imposed on (i) the bank's taxable income at the rate of 7%, less credits for certain Missouri taxes, including income taxes. However, the credits excludes taxes paid for real estate, unemployment taxes, bank tax, and taxes on tangible personal property owned by the Bank and held for lease or rentals to others - income-based calculation; and (ii) the bank's net assets at a rate of .033%. Net assets are defined as total assets less deposits and the investment in greater than 50% owned subsidiaries - asset-based calculation.

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

Arkansas Taxation

General. Due to its loan activity and the acquisitions of Arkansas banks in recent periods, the Bank is subject to an Arkansas income tax. The tax is imposed on the Bank's apportioned taxable income at a rate of 6%.

Audits

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

For additional information regarding taxation, see Note 11 of Notes to the Consolidated Financial Statements contained in Item 8.

PERSONNEL

As of June 30, 2014, the Company had 221 full-time employees and 26 part-time employees. The Company believes that employees play a vital role in the success of a service company and that the Company's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

EXECUTIVE OFFICERS

Greg A. Steffens, the Company’s President and Chief Executive Officer, has been with us since 1998. He was hired in 1998 as Chief Financial Officer and was appointed President and CEO in1999. He has over 24 years of experience in the banking industry, including service from 1993 to 1998 as chief financial officer of Mount Vernon, Missouri-based Sho-Me Financial Corp, prior to the sale of that company. Mr. Steffens also served from 1989 to 1993 as an examiner with the Office of Thrift Supervision.

Matthew T. Funke, the Company’s Chief Financial Officer, has worked for us since 2003. He has more than 15 years of banking and finance experience. Mr. Funke was initially hired to establish an internal audit function for the Company, and served as internal auditor and compliance officer until 2006, when he was named Chief Financial Officer. Previously, Mr. Funke was employed with Central Bancompany, Inc., where he advanced to the role of internal audit manager, and as a fiscal analyst with the Missouri General Assembly.

Lora L. Daves, the Company’s Chief Credit Officer, has worked for us since 2006. Ms. Daves is responsible for the administration of the Company’s credit portfolio, including analysis of proposed new credits and monitoring of the portfolio’s credit quality. Ms. Daves has over 25 years of banking and finance experience, including 11 years beginning with Mercantile Bank of Poplar Bluff, which merged with and into US Bank, a subsidiary of U.S. Bancorp, headquartered in Minneapolis, Minnesota, during her tenure there. Ms. Daves’ responsibilities with US Bank included credit analysis, underwriting, credit presentation, credit approval, monitoring credit quality, and analysis of the allowance for loan losses. She advanced to hold responsibility for regional credit administration, loan review, compliance, and problem credit management. Ms. Daves’ experience also includes four years as Chief Financial Officer of a Southeast Missouri healthcare provider which operated a critical access hospital, eight rural health clinics, two retail pharmacies, an ambulatory surgery center, and provided outpatient radiology and physical therapy services; and four years with a national real estate development and management firm, working in their St. Louis-based Midwest regional office as a general accounting manager.

William D. Hribovsek, our Chief Lending Officer, has been with us since 1999. Mr. Hribovsek joined the Company as its senior commercial lender, and was named Chief Lending Officer in 2006. He has over 34 years banking experience. Prior to joining the Company, Mr. Hribovsek was employed as a commercial lender from 1979 to 1999 with Commerce Bank of Poplar Bluff, which was since merged with and into Commerce Bank, N.A., a subsidiary of Commerce Bancshares, Inc., headquartered in Kansas City, Missouri. While with Commerce Bank, Mr. Hribovsek oversaw the institution’s installment loan department for 12 years.

Kimberly A. Capps, the Company's Chief Operations Officer, has been with us since 1994. She has over 22 years banking experience. Ms. Capps is responsible for the Company's retail deposit operations, product development and marketing, and data processing and network administration functions. Ms. Capps was initially hired by our bank subsidiary as controller, and was named Chief Financial Officer in 2001. In 2006, Ms. Capps was named Chief Operations Officer. Prior to joining the Company, Ms. Capps was employed for more than three years with the accounting firm of Kraft, Miles & Tatum, where she specialized in financial institution audits and taxation.

INTERNET WEBSITE

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

Item 1A. Risk Factors
Risks Relating to Our Business and Operating Environment

An investment in our securities is subject to inherent risks. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our securities could decline due to any of these identified or other risks, and you could lose all or part of your investment.

We may fail to realize all of the anticipated benefits of our recently completed acquisition of Peoples Service Company ("PSC").

The success of our recently completed acquisition of PSC will depend on, among other things, our ability to realize anticipated cost savings and to combine the businesses of the companies in a manner that does not materially disrupt the existing customer relationships of the companies or result in decreased revenues from customers. If we are unable to achieve these objectives, the anticipated benefits of the acquisition may not be realized fully, if at all, or may take longer to realize than expected.

Prior to the completion of the acquisition, we and PSC operated independently of one another. The integration process could result in the loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts between the companies will also divert management attention and resources. These integration matters could adversely affect us.

If we fail to successfully integrate PSC into our internal control over financial reporting or if PSC's internal controls are found to be ineffective, the integrity of our financial reporting could be compromised.

As a private company, PSC was not subject to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to internal control over financial reporting, and for a period of time after the consummation of the Merger, the management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting may exclude the operations of PSC. The integration of PSC into our internal control over financial reporting will require significant time and resources from our management and other personnel and will increase our compliance costs. If we fail to successfully integrate the operations of PSC into our internal control over financial reporting, our internal control over financial reporting might not be effective. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our ability to accurately report our financial results, the market's perception of our business and our stock price. In addition, if PSC's internal controls are found to be ineffective, the integrity of PSC's past financial statements could be adversely impacted.

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

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

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;

- the credit history of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

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

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

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

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

At June 30, 2014 and June 30, 2013, our nonperforming assets were $4.4 million and $4.6 million, respectively, or 0.43% and 0.58% of total assets, respectively. Our nonperforming assets adversely affect our net income in various ways:

- We do not record interest income on nonaccrual loans, nonperforming investment securities, or other real estate owned.
- We must provide for probable loan losses through a current period charge to the provision for loan losses.
- Non-interest expense increases when we must write down the value of properties in our other real estate owned portfolio to reflect changing market values or recognize other-than-temporary impairment on nonperforming investment securities.
- There are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our other real estate owned.
- The resolution of nonperforming assets requires the active involvement of management, which can divert management's attention from more profitable activities.

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

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

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

- loan delinquencies may increase;

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

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

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

Our construction lending exposes us to significant risk.

Our construction loan portfolio, which totaled $40.7 million, or 5.09% of loans, net, at June 30, 2014, includes residential and non-residential construction and development loans. This type of lending is generally considered to have more complex credit risks than traditional single-family residential lending because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and sale of the related real estate project. Consequently, these loans are often more sensitive to adverse conditions in the real estate market or the general economy than other real estate loans. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be difficult to dispose of in a market decline. Additionally, we may experience significant construction loan losses because independent appraisers or project engineers inaccurately estimate the cost and value of construction loan projects.

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

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

At June 30, 2014, 56.12% of our loans, net, consisted of commercial real estate and commercial business loans to small and mid-sized businesses, generally located in our primary market area, which are the types of businesses that have a heightened vulnerability to local economic conditions. Over the last several years, we have increased this type of lending from 50.53% of our portfolio at June 30, 2009, in order to improve the yield on our assets. At June 30, 2014, our loan portfolio included $308.5 million of commercial real estate loans and $144.1 million of commercial business loans compared to $97.2 million and $89.1 million, respectively, at June 30, 2009. The credit risk related to these types of loans is considered to be greater than the risk related to one- to four-family residential loans because the repayment of commercial real estate loans and commercial business loans typically is dependent on the successful operation and income stream of the borrower's business and the real estate securing the loans as collateral, which can be significantly affected by economic conditions. Additionally, commercial loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Commercial loans not collateralized by real estate are often secured by collateral that may depreciate over time, be difficult to appraise and fluctuate in value (such as accounts receivable, inventory and equipment). If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could require us to increase our provision for loan losses and adversely affect our operating results and financial condition.

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

Included in the commercial real estate loans described above are agricultural real estate loans totaling $63.8 million, or 8.0% of our loan portfolio, net, at June 30, 2014. Agricultural real estate lending involves a greater degree of risk and typically involves larger loans to single borrowers than lending on single-family residences. Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the farm borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower’s ability to repay the loan may be impaired. The primary crops in our market areas are cotton, rice, corn and soybean. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio. Our agricultural real estate lending has grown significantly since June 30, 2009, when these loans totaled $21.3 million, or 5.8% of our loan portfolio.

Included in the commercial business loans described above are agricultural production and equipment loans. At June 30, 2014, these loans totaled $53.4 million, or 6.7%, of our loan portfolio, net. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans which are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. Any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation to the collateral. Our agricultural operating loans have also grown significantly since June 30, 2009, when such loans totaled $27.5 million, or 7.5% of our loan portfolio. Agricultural production and equipment loans typically peak for us during the fall. At September 30, 2013, these loans totaled $58.4 million, or 8.6% of our loan portfolio, net.

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

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

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

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

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

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

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

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be adversely affected;

- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;

- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into us to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

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

- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders; and

- We have completed four acquisitions within the past five years and opened additional banking offices in the past few years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future.

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

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

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

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

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

Impairment of investment securities, other intangible assets, or deferred tax assets could require charges to earnings, which could negatively impact our results of operations.

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

Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. As of June 30, 2014, we determined that none of our goodwill or other intangible assets were impaired.

Deferred tax assets are only recognized to the extent it is more likely than not they will be realized. Should our management determine it is not more likely than not that the deferred tax assets will be realized, a valuation allowance with a charge to earnings would be reflected in the period. At June 30, 2014, our net deferred tax asset was $2.0 million, none of which was disallowed for regulatory capital purposes. Based on the levels of taxable income in prior years and our expectation of profitability in the current year and future years, management has determined that no valuation allowance was required at June 30, 2014. If we are required in the future to take a valuation allowance with respect to our deferred tax asset, our financial condition, results of operations and regulatory capital levels would be negatively affected.

The soundness of other financial institutions could adversely affect us.

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

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

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

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations, some of which is expected to increase our costs of operations.

We are currently subject to extensive examination, supervision and comprehensive regulation by the FDIC and the DFI and by the Federal Reserve. The FDIC, DFI and the Federal Reserve govern the activities in which we may engage, primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion, including the ability to restrict an institution's operations, require the institution to reclassify assets, determine the adequacy of the institution's allowance for loan losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material adverse impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or growth prospects. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

The Dodd-Frank Act has significantly changed the bank regulatory structure and will affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting and implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, a provision of the Dodd-Frank Act eliminates the federal prohibition on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets.

Financial institutions, such as our subsidiary banks, with $10 billion or less in assets continue to be examined for compliance with the consumer laws by their primary bank regulators.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense. Any additional changes in our regulation and oversight, whether in the form of new laws, rules or regulations, could make compliance more difficult or expensive or other wise materially adversely affect our business, financial condition or prospects.

Significant legal actions could subject us to substantial liabilities.

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

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

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

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

Security breaches in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, which could damage our reputation and business.

Risks Relating to Our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock when you want or at prices you find attractive.

We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this “Risk Factors” section:

- actual or anticipated quarterly fluctuations in our operating and financial results;
- developments related to investigations, proceedings or litigation;
- changes in financial estimates and recommendations by financial analysts;
- dispositions, acquisitions and financings;
- actions of our current shareholders, including sales of common stock by existing shareholders and our directors and executive officers;

- fluctuations in the stock prices and operating results of our competitors;
- regulatory developments; and
- other developments in the financial services industry.

The market value of our common stock may also be affected by conditions affecting the financial markets in general, including price and trading fluctuations. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our common stock.

There may be future sales of additional common stock or other dilution of our shareholders' equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or similar securities in the market or the perception that such sales could occur.

We may issue debt and equity securities that are senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may increase our capital resources by entering into debt or debt-like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of the liquidation of Southern Missouri Bancorp, Inc. its lenders and holders of its debt or preferred securities would receive a distribution of the Southern Missouri Bancorp, Inc.'s available assets before distributions to the holders of our common stock. Our decision to incur debt and issue other securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Future offerings could reduce the value of our common stock and dilute the interests of our shareholders.

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

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

In July 2011, Southern Missouri Bancorp, Inc. sold to the U.S. Treasury $20.0 million of preferred stock pursuant to Treasury's Small Business Lending Fund ("SBLF") program. The payment of dividends on the SBLF preferred stock reduces the amount of earnings available to pay dividends to common shareholders. The terms of the SBLF preferred stock also restrict our ability to pay dividends on, and repurchase, our common stock. Under the terms of the SBLF preferred stock, our ability to pay dividends on or repurchase our common stock is limited by a requirement that we generally not reduce our Tier 1 capital from the level on the SBLF closing date by more than 10%. In addition, if we fail to pay a dividend on the SBLF preferred stock, there are further restrictions on our ability to pay dividends on or repurchase our common stock. As described in the next risk factor, the terms of our outstanding junior subordinated debt securities prohibit us from paying dividends on or repurchasing our common stock at any time when we have elected to defer the payment of interest on such debt securities or certain events of default under the terms of those debt securities have occurred and are continuing. These restrictions could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce, suspend or eliminate our common stock cash dividend in the future.

The dividend rate on the SBLF preferred stock will increase after four and one-half years from the issuance date, which could have negative effects on the value of, or our ability to pay dividends on, our common stock.

The per annum dividend rate on the SBLF preferred stock fluctuated on a quarterly basis during the first ten quarters during which the SBLF preferred stock was outstanding, based upon changes in the amount of our "Qualified Small Business Lending" or "QSBL" from a baseline level. Our QSBL level reported at September 30, 2013, fixed the dividend rate until four and one-half years after the issuance date (i.e., to January 19, 2016) at one percent (1%). From and after four and one-half years following the issuance date, the dividend rate will be fixed at nine percent (9%), regardless of the amount of QSBL.

For fiscal 2014, the SBLF dividend rate was one percent (1%), providing an annualized cost of this capital to us of $200,000. An increase in the dividend rate to nine percent (9%) would increase the annual cost of this capital to $1.8 million. Depending on our financial condition at the time, any such increases in the dividend rate could have a material negative effect on our liquidity and the availability of funds to pay dividends on our common stock.

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

As of June 30, 2014, we had outstanding $10.3 million aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by subsidiaries of ours that are statutory business trusts. As of that date, those debt securities were carried at a fair value of $9.7 million. Upon completion of our acquisition of PSC, we assumed the obligations of Peoples Banking Company, a subsidiary of PSC ("PBC"), under PBC's $6.5 million aggregate principal amount of junior subordinated debt securities issued by PBC in connection with the sale of trust preferred securities by a subsidiary of PBC (and now a subsidiary of ours) that is a statutory business trust.

We guarantee the trust preferred securities described above. The indenture under which the junior subordinated debt securities were issued, together with the guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the SBLF preferred stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture; or (ii) we are in default with respect to payment of any obligations under the guarantee; or (iii) we have elected to defer payment of interest on the junior subordinated debt securities. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities from time to time for up to five years.

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

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

The warrant we issued in connection with the TARP Capital Purchase Program may be dilutive to holders of our common stock.

On December 5, 2008, in connection with our participation in the U.S. Treasury's TARP Capital Purchase Program, we issued to Treasury a ten-year warrant (the "TARP Warrant") to purchase 114,326 shares of our common stock at an exercise price of $12.53 per share. Although we redeemed all of the preferred stock we issued to Treasury pursuant to the TARP Capital Purchase Program using the proceeds of the preferred stock we issued to Treasury pursuant to the SBLF program, the TARP Warrant remains outstanding and is currently held by Treasury. The terms of the TARP Warrant provide for an adjustment to the number of underlying shares and the exercise price to the extent we pay cash dividends on our common stock in excess of $0.12 per share. We began paying a cash dividend on our common stock in excess of $0.12 per share in the fiscal year ended June 30, 2013, during which we paid a regular quarterly cash dividend of $0.15 per share, and continued doing so in the fiscal year ended June 30, 2014, during which we paid a regular quarterly cash dividend of $0.16 per share. As a result of those dividends, the number of shares underlying the TARP Warrant has increased to 115,469 and the exercise price has decreased to $12.41. Further adjustments to the TARP Warrant as a result of our paying cash dividends on our common stock in excess of $0.12 per share could further dilute the interests of our common shareholders.

Anti-takeover provisions could negatively impact our shareholders.

Provisions of our articles of incorporation and bylaws, Missouri law and various other factors may make it more difficult for companies or persons to acquire control of us without the consent of our board of directors. These provisions include limitations on voting rights of beneficial owners of more than 10% of our common stock, the election of directors to staggered terms of three years and not permitting cumulative voting in the election of directors. Our bylaws also contain provisions regarding the timing and content of shareholder proposals and nominations for service on the board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

The following table sets forth certain information regarding the Bank's offices as of June 30, 2014.

Location	Year Opened	Building Net Book Value as of June 30, 2014	Land Owned/ Leased	Building Owned/ Leased
		(Dollars in thousands)		
Main Office				
531 Vine St. Poplar Bluff, Missouri	1966	$779	Owned	Owned
Branch Offices				
502 Main St. Van Buren, Missouri	1982	5	Owned	Owned
1330 N. Westwood Blvd. Poplar Bluff, Missouri	1976	42	Leased	Owned
2080 Three Rivers Blvd. Poplar Bluff, Missouri	2011	---	Leased	Leased
4214 Highway PP Poplar Bluff, Missouri	2001	424	Owned	Owned
713 Business 60 West Dexter, Missouri	1979	15	Owned	Owned
301 First St. Kennett, Missouri	2000	649	Owned	Owned
302 Washington St. Doniphan, Missouri	2001	501	Owned	Owned
13371 Highway 53 Qulin, Missouri	2000	67	Owned	Owned
1205 S. Main St. Sikeston, Missouri	2006	758	Owned	Owned
100 W. Main St. Matthews, Missouri	2008	---	Leased	Leased
1727 W. Kingshighway Paragould, Arkansas	2009	364	Leased	Owned

2775 E. Nettleton Jonesboro, Arkansas	2009	810	Owned	Owned
1925 S. Main Jonesboro, Arkansas	2013	2,458	Owned	Owned
601 N. Holman Brookland, Arkansas	2009	80	Owned	Owned
1583 S. St. Louis St Batesville, Arkansas	2010	2,851	Owned	Owned
2208 E. Race Ave. Searcy, Arkansas	2010	2,481	Owned	Owned
4650 South National, Suite C-4 Springfield, Missouri	2010	---	Leased	Leased
116 Chestnut St. Thayer, Missouri	2014	584	Owned	Owned

125 E. Walnut St. Thayer, Missouri	2014	21	Leased	Owned
Highway 160 Alton, Missouri	2014	20	Owned	Owned
960 Preacher Roe Blvd. West Plains, Missouri	2014	356	Owned	Owned
306 E. Elm St. Bald Knob, Arkansas	2014	301	Owned	Owned
3606 Highway 367 N. Bald Knob, Arkansas	2014	16	Owned	Owned
5227 Hwy. 367 North Bradford, Arkansas	2014	56	Owned	Owned

On August 5, 2014, in connection with the acquisition of Peoples Service Company, we acquired Peoples Bank of the Ozarks, which currently has nine branch offices in southwest Missouri, along with its main office in Nixa, Missouri. We intend to merge Peoples Bank of the Ozarks with Southern Bank in early December, 2014. We do not intend to close any of the current Peoples Bank of the Ozarks facilities.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Equity Securities

The common stock of Southern Missouri Bancorp, Inc. is traded under the symbol “SMBC” on the Nasdaq Global Market. The table below shows the high and low closing prices for our common stock for the periods indicated. This information was provided by the Nasdaq. At June 30, 2014, there were 3,340,440 shares of common stock outstanding and approximately 261 common stockholders of record.

	Stock Price		
2014 Quarters:	High	Low	Dividends per Share
Fourth Quarter (ended 6/30/2014)	$36.15	$34.52	$0.16
Third Quarter (ended 3/31/2014)	36.99	31.98	0.16
Second Quarter (ended 12/31/2013)	37.00	26.06	0.16
First Quarter (ended 9/30/2013)	28.50	25.58	0.16
2013 Quarters:			
Fourth Quarter (ended 6/30/2013)	$26.35	$24.00	$0.15
Third Quarter (ended 3/31/2013)	26.90	22.83	0.15
Second Quarter (ended 12/31/2012)	24.50	22.35	0.15
First Quarter (ended 9/30/2012)	24.50	21.50	0.15
2012 Quarters:			
Fourth Quarter (ended 6/30/2012)	$25.85	$21.20	$0.12
Third Quarter (ended 3/31/2012)	25.90	22.10	0.12
Second Quarter (ended 12/31/2011)	23.73	20.28	0.12
First Quarter (ended 9/30/2011)	22.98	20.39	0.12

Our cash dividend payout policy is continually reviewed by management and the Board of Directors. The Company intends to continue its policy of paying quarterly dividends; however, future dividend payments will depend upon a number of factors, including capital requirements, regulatory limitations (See “Item 1. Description of Business – Regulation”), the Company’s financial condition, results of operations and the Bank’s ability to pay dividends to the Company. The Company relies significantly upon such dividends originating from the Bank to accumulate earnings for payment of cash dividends to stockholders. The terms of our SBLF preferred shares limit our ability to pay dividends to common stockholders if dividends on the SBLF preferred shares are not paid. See “Item 1A. Risk Factors – Risks Relating to our Common Stock – Regulatory and Contractual Restrictions may limit or prevent us from paying dividends on and repurchasing our common stock.”

Information regarding our equity compensation plans is included in Item 11 of this Form 10-K.

The following table summarizes the Company's stock repurchase activity for each month during the three months ended June 30, 2014.

	Total # of Shares Purchased	Average Price Paid Per	Total # of Shares	Maximum Number of Shares That

		Share	Purchased as Part of a Publicly Announced Program	May Yet Be Purchased
06/01/14 - 06/30/14 period	-	-	-	-
05/01/14 - 05/31/14 period	-	-	-	-
04/01/14 - 04/30/14 period	-	-	-	-

Item 6. Selected Financial Data

(dollars on thousands)	At June 30				
Financial Condition Data:	2014	2013	2012	2011	2010
Total assets	$1,021,422	$796,391	$739,189	$688,200	$552,084
Loans receivable, net	801,056	647,166	583,465	556,576	418,683
Mortgage-backed securities	58,151	16,714	19,253	24,536	34,334
Cash, interest-bearing deposits and investment securities	88,658	77,059	90,568	73,479	67,103
Deposits	785,801	632,379	584,814	560,151	422,893
Borrowings	111,033	52,288	50,142	58,730	73,869
Subordinated debt	9,727	7,217	7,217	7,217	7,217
Stockholder's equity	111,111	101,829	94,728	55,732	45,649

(dollars on thousands, except per share data)	For the Year Ended June 30				
Operating Data:	2014	2013	2012	2011	2010
Interest income	$40,471	$36,291	$38,965	$35,048	$27,541
Interest expense	7,485	7,501	9,943	11,285	11,225
Net Interest Income	32,986	28,790	29,022	23,763	16,316
Provision for loan losses	1,646	1,716	1,785	2,385	925
Net interest income after provision for loan losses	31,340	27,074	27,237	21,378	15,391
Noninterest income	6,132	4,468	4,063	10,502	3,094
Noninterest expense	23,646	17,521	16,605	14,459	12,348
Income before income taxes	13,826	14,021	14,695	17,421	6,137
Income taxes	3,745	3,954	4,597	5,952	1,511
Net Income	10,081	10,067	10,098	11,469	4,626
Less: charge for early redemption of preferred stock issued at a discount	-	-	94	-	-
Less: effective dividend on preferred stock	200	345	424	512	510
Net income available to common stockholders	$9,881	$9,722	$9,580	$10,957	$4,116
Basic earnings per share available to common stockholders	$2.99	$2.95	$3.43	$5.25	$1.98
Diluted earnings per share available to common stockholders	$2.91	$2.88	$3.32	$5.12	$1.95
Dividends per share	$0.64	$0.60	$0.48	$0.48	$0.48

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	At June 30				
Other Data:	2014	2013	2012	2011	2010
Number of:					
Real Estate Loans	4,459	3,637	3,583	3,758	3,282
Deposit Accounts	43,159	31,980	31,307	30,243	25,353
Full service offices	25	18	18	16	14
Loan production offices	-	-	-	2	-

	At or for the year ended June 30				
Key Operating Ratios:	2014	2013	2012	2011	2010
Return on assets (net income divided by average assets)	1.09 %	1.32 %	1.37 %	1.81 %	0.88 %
Return on average common equity (net income available to common stockholders divided by average common equity)	11.55	12.34	15.15	27.08	11.85
Average equity to average assets	11.43	12.92	11.18	7.89	8.39
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	3.68	3.85	3.90	3.71	3.06
Net interest margin (net interest income as a percentage of average interest-earning assets	3.81	4.02	4.12	3.92	3.27
Noninterest expense to average assets	2.56	2.29	2.25	2.28	2.35
Average interest-earning assets to average interest-bearing liabilities	114.26	116.68	115.19	111.29	109.57
Allowance for loan losses to gross loans (1)	1.14	1.28	1.27	1.14	1.06
Allowance for loan losses to nonperforming loans (1)	663.37	583.41	312.38	918.84	1,358.45
Net charge-offs (recoveries) to average outstanding loans during the period	0.10	0.13	0.13	0.09	0.10

Ratio of nonperforming assets to total assets (1)	0.43	0.58	0.54	0.35	0.37
Common shareholder dividend payout ratio (common dividends as a percentage of earnings available to common shareholders	21.44	20.31	13.40	9.17	24.35

(1) At end of period

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

OVERVIEW

Southern Missouri Bancorp, Inc. is a Missouri corporation originally organized for the principal purpose of becoming the holding company of Southern Bank. The principal business of Southern Bank consists of attracting deposits from the communities it serves and investing those funds in loans secured by one- to four-family residences and commercial real estate, as well as commercial business and consumer loans. These funds have also been used to purchase investment securities, mortgage-backed securities (MBS), U.S. government and federal agency obligations and other permissible securities.

Southern Bank’s results of operations are primarily dependent on the levels of its net interest margin and noninterest income, and its ability to control operating expenses. Net interest margin is dependent primarily on the difference or spread between the average yield earned on interest-earning assets (including loans, mortgage-related securities, and investments) and the average rate paid on interest-bearing liabilities (including deposits, securities sold under agreements to repurchase, and borrowings), as well as the relative amounts of these assets and liabilities. Southern Bank is subject to interest rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a varying basis, from its interest-bearing liabilities.

Southern Bank’s noninterest income consists primarily of fees charged on transaction and loan accounts, interchange income from customer debit and ATM card use, gains on sales of loans to the secondary market, and increased cash surrender value of bank owned life insurance (“BOLI”). Southern Bank’s operating expenses include: employee compensation and benefits, occupancy expenses, legal and professional fees, federal deposit insurance premiums, amortization of intangible assets, and other general and administrative expenses.

Southern Bank’s operations are significantly influenced by general economic conditions including monetary and fiscal policies of the U.S. government and the Federal Reserve Board. Additionally, Southern Bank is subject to policies and regulations issued by financial institution regulatory agencies including the Federal Reserve, the Missouri Division of Finance, and the Federal Deposit Insurance Corporation. Each of these factors may influence interest rates, loan demand, prepayment rates and deposit flows. Interest rates available on competing investments as well as general market interest rates influence the Bank’s cost of funds. Lending activities are affected by the demand for real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered. Lending activities are funded through the attraction of deposit accounts consisting of checking accounts, passbook and statement savings accounts, money market deposit accounts, certificate of deposit accounts with terms of 60 months or less, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of Des Moines, and, to a lesser extent, brokered deposits. The Bank intends to continue to focus on its lending programs for one- to four-family residential real estate, commercial real estate, commercial business and consumer financing on loans secured by properties or collateral located primarily in southeast Missouri and northeast and north central Arkansas.

NON-GAAP FINANCIAL INFORMATION

This Annual Report on Form 10-K contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (GAAP). These measures include:

- Fiscal year 2011 net income available to common stockholders per diluted common share excluding bargain purchase gain, net of transaction expenses related to the December 2010 FDIC-assisted acquisition involving the former First Southern Bank (the “Fiscal 2011 Acquisition”), net of tax;

- Fiscal year 2014, 2013 and 2012 net income available to common stockholders excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax;

- Fiscal year 2014, 2013 and 2012 return on average assets excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax;

- Fiscal year 2014, 2013 and 2012 return on average common equity excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax;

- Fiscal year 2014, 2013 and 2012 net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Fiscal 2011 Acquisition;

Management believes that showing these amounts and measures excluding these items is useful for investors because it better reflects our core operating results and provides useful information by which to evaluate the Company's operating performance on an ongoing basis from period to period. Acquisitions which were not FDIC-assisted resulted in less variation in what management believes to be core operating results.

The following table presents a reconciliation of the calculation of fiscal 2011 diluted earnings per share available to common shareholders excluding bargain purchase gain and transaction expenses related to the Fiscal 2011 Acquisition:

		For the twelve months ended June 30, 2011
Diluted earnings per share available to common stockholders	$	5.12
Less: impact of excluding bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax		1.92
Diluted earnings per share available to common stockholders - excluding bargain purchase gain, net of tax and transaction expenses, related to the Fiscal 2011 Acquisition	$	3.20

The following table presents a reconciliation of the calculation of net income available to common stockholders, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax:

	For the twelve months ended		
(dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2012
Net income available to common stockholders	$9,881	$9,722	$9,580
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax	395	873	2,446
Net income available to common shareholders - excluding accretion of fair value	$9,486	$8,849	$7,134

discount on acquired loans and amortization of fair value premium on acquired
time deposits, and bargain purchase gain, net of transaction expenses, related to
the Fiscal 2011 Acquisition, net of tax

The following table presents a reconciliation of the calculation of return on average assets, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax:

	For the twelve months ended					
	June 30, 2014		June 30, 2013		June 30, 2012	
Return on average assets	1.09	%	1.32	%	1.37	%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax	0.04	%	0.12	%	0.33	%
Return on average assets - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax	1.05	%	1.20	%	1.04	%

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The following table presents a reconciliation of the calculation of return on average common equity, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax:

	For the twelve months ended					
	June 30, 2014		June 30, 2013		June 30, 2012	
Return on average common equity	11.55	%	12.34	%	15.15	%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax	0.47	%	1.11	%	3.87	%
Return on average common equity - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Fiscal 2011 Acquisition, net of tax	11.08	%	11.23	%	11.28	%

The following table presents a reconciliation of the calculation of net interest margin, excluding accretion of fair value discount on acquired loans and amortization of premium on acquired time deposits related to the Fiscal 2011 Acquisition:

	For the twelve months ended					
	June 30, 2014		June 30, 2013		June 30, 2012	
Net interest margin	3.81	%	4.02	%	4.12	%
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 Fiscal 2011 Acquisition	0.08	%	0.19	%	0.57	%
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 Fiscal 2011 Acquisition	3.73	%	3.83	%	3.55	%

The non-GAAP disclosures contained herein should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

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CRITICAL ACCOUNTING POLICIES

The Company has established various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in Item 8 under the Notes to the Consolidated Financial Statements. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

The allowance for losses on loans represents management’s best estimate of probable losses 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.

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.

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

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or probable losses and to assign risk grades. The primary responsibility for this review rests with the loan administration personnel. This review is supplemented with periodic examinations of both selected credits and the credit review process by applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit represents a probable loss or risk that should be recognized.

Loans are considered impaired if, based on current information and events, it is probable that Southern Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the collateral for collateral-dependent loans. If the loan is not collateral-dependent, the measurement of impairment is based on the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. In measuring the fair value of the collateral, management uses the assumptions (i.e., discount rates) and methodologies (i.e., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties. Impairment identified through this evaluation process is a component of the allowance for loan losses. If a loan that is individually evaluated for impairment is found to have none, it is grouped together with loans having similar characteristics (i.e., the same risk grade), and an allowance for loan losses is based upon a quantitative factor (historical average charge-offs for similar loans over the past one to five years), and qualitative factors such as qualitative factors such as 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; and regulatory risk. For portfolio loans that are evaluated for impairment as part of homogenous pools, an allowance is maintained based upon similar quantitative and qualitative factors. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the conditions of the various markets in which collateral may be sold may all affect the required level of the allowance for losses on loans and the associated provision for losses on loans.

FINANCIAL CONDITION

General. The Company experienced balance sheet growth in fiscal 2014, with total assets increasing $225.0 million, or 28.3%, to $1.0 billion at June 30, 2014, as compared to $796.4 million at June 30, 2013. Balance sheet growth was primarily due to the October 2013 acquisition of the Bank of Thayer and the February 2014 acquisition of Citizens State Bank (the “Fiscal 2014 Acquisitions”), as well as organic loan growth. Balance sheet growth was funded primarily with increases in deposit balances, both acquired and organic growth, and Federal Home Loan Bank (FHLB) advances.

Cash and equivalents. Cash equivalents and time deposits were up $2.8 million, or 20.5%, as compared to June 30, 2013.

Loans. Loans, net of the allowance for loan losses, increased $153.9 million, or 23.8%, to $801.1 million at June 30, 2014, as compared to $647.2 million at June 30, 2013. The increase was primarily attributable to organic growth and the Fiscal 2014 Acquisitions, which included $51.4 million in loans, at fair value. The increase consisted primarily of residential real estate and commercial real estate loans. The increase in residential real estate loans included, in roughly equal amounts, loans secured by single family and multi-family housing.

Allowance for Loan Losses. The allowance for loan losses increased $900,000, or 10.5%, to $9.3 million at June 30, 2014 from $8.4 million at June 30, 2013. The allowance represented 1.14% of gross loans receivable at June 30, 2014, as compared to 1.28% of gross loans receivable at June 30, 2013. The decline in the allowance as a percentage of gross loans receivable was attributable to the utilization of a specific allowance on a nonperforming loan that was charged off during fiscal 2014, the addition of loans subject to purchase accounting resulting from the Fiscal 2014 Acquisitions, and improvement in the ratio of nonperforming loans (which include nonaccruing loans and loans 90 days or more past due) to total loans. See also, Provision for Loan Losses, under Comparison of Operating Results for the Years Ended June 30, 2014 and 2013.

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 one to five years for each loan category. Average net charge offs are calculated as net charge offs for the period by portfolio type as a percentage of the average balance of the respective portfolio type over the same period. The Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation.

The following table sets forth the Company’s historical net charge offs as of June 30, 2014:

Portfolio segment	Net charge offs - 1-year historical		Net charge offs - 5-year historical	
Real estate loans:				
Residential	0.06	%	0.08	%
Construction	0.00		0.03	
Commercial	0.03		0.10	
Consumer loans	0.26		0.38	
Commercial loans	0.44		0.20	

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 June 30, 2014, 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 June 30, 2014		Qualitative factor applied at June 30, 2013	
Real estate loans:				
Residential	0.78	%	0.67	%
Construction	1.67		1.22	
Commercial	1.33		1.29	
Consumer loans	1.39		1.30	
Commercial loans	1.29		1.30	

At June 30, 2014, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $8.6 million, as compared to $6.2 million at June 30, 2013. The general increase in qualitative factors was attributable to significant loan growth, entry to new markets, addition of new lending personnel, and changes in the portfolio mix.

Investments. The available-for-sale investment portfolio increased $50.2 million, or 62.8%, to $130.2 million at June 30, 2014, as compared to $80.0 million at June 30, 2013. The increase was primarily attributable to the Fiscal 2014 Acquisitions, which included $84.8 million in securities balances. The increase consisted primarily of investments in mortgage-backed securities and municipal bonds.

Premises and Equipment. Premises and equipment increased $5.0 million, or 28.3%, to $22.5 million at June 30, 2014, as compared to $17.5 million at June 30, 2013. The increase was due to premises and equipment obtained in the Fiscal 2014 Acquisitions, completion of one new branch facility, acquisition of property for future expansion, and the purchase of software and equipment, partially offset by increases in accumulated depreciation.

BOLI. The Bank purchased “key person” life insurance policies on employees in fiscal 2003 and fiscal 2005 for original premiums totaling $6.0 million. In fiscal 2012, the Bank purchased additional “key person” life insurance policies for original premiums totaling $7.5 million. In fiscal 2014, the Bank acquired $2.1 million in additional “key person” life insurance as part of the Citizens State Bank acquisition. At June 30, 2014, the cash surrender value of these policies had increased to $19.1 million.

Intangible Assets. Intangible assets generated through branch acquisitions in fiscal 2000 decreased $256,000 to $306,000 as of June 30, 2014, and will continue to be amortized in accordance with ASC Topic 350. The July 2009 acquisition of the Southern Bank of Commerce resulted in goodwill of $126,000, which will not be amortized, but will be tested for impairment at least annually, and a $184,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method. The December 2010 assumption of the deposits of the former First Southern Bank resulted in a $625,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method. The October 2013 acquisition of Bank of Thayer resulted in goodwill of $1.5 million, which will not be amortized, but will be tested for impairment at least annually, and a $1.4 million core deposit intangible, which is being amortized over a five-year period using the straight-line method. The February 2014 acquisition of Citizens State Bank resulted in a $624,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method.

Deposits. Deposits increased $153.4 million, or 24.3%, to $785.8 million at June 30, 2014, as compared to $632.4 million at June 30, 2013. The increase was primarily attributable to the Fiscal 2014 Acquisitions, which included $132.6 million in deposits, at fair value, and organic growth. The increase consisted of interest-bearing checking, certificate of deposit, noninterest-bearing checking, savings, and money market deposit accounts. The average loan-to-deposit ratio for the fourth quarter of fiscal 2014 was 99.5%, as compared to 101.9% for the same period of the prior fiscal year.

Borrowings. FHLB advances were $85.5 million at June 30, 2014, an increase of $61.0 million, or 248.9%, as compared to $24.5 million at June 30, 2013. The increase was attributable primarily to the use of overnight borrowings to fund asset growth. Securities sold under agreements to repurchase totaled $25.6 million at June 30, 2014, as compared to $27.8 million at June 30, 2013, a decrease of 8.0%. At both dates, the full balance of repurchase agreements was due to local small business and government counterparties. The Company has encouraged these counterparties to migrate to a swept deposit product that places their funds in other FDIC-insured depositories, while providing funding to our institution under a reciprocal arrangement, in order to improve the Company's liquidity.

Subordinated Debt. In March 2004, $7.0 million of Floating Rate Capital Securities of Southern Missouri Statutory Trust I, with a liquidation value of $1,000 per share were issued. The securities mature in March 2034, were redeemable beginning in March 2009, and bear interest at a floating rate of three-month LIBOR plus 275 basis points. In its October 2013 acquisition of Ozarks Legacy Community Financial, Inc. (OLCF), the Company assumed $3.1 million in floating rate junior subordinated debt securities. The securities had been issued in June 2005 by OLCF, bear interest at a floating rate based on LIBOR, and mature in 2035.

Stockholders' Equity. The Company's stockholders' equity increased $9.3 million, or 9.1%, to $111.1 million at June 30, 2014, from $101.8 million at June 30, 2013. The increase was due primarily to retention of net income, as well as an increase in accumulated other comprehensive income, partially offset by dividends paid on common and preferred stock.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Net Income. The Company's net income available to common stockholders for the fiscal year ended June 30, 2014, was $9.9 million, an increase of $159,000, or 1.6%, from the $9.7 million available to common stockholders for the prior fiscal year. Before an effective dividend on preferred shares of $200,000, net income was $10.1 million for the 2014 fiscal year, unchanged from the $10.1 million in net income for the prior fiscal year. Exclusive of fair value discount accretion on acquired loans and amortization of fair value premium on acquired time deposits related to the Fiscal 2011 Acquisition, net of tax, net income available to common stockholders for fiscal 2014 was $9.7 million, as compared to $8.8 million for fiscal 2013.

Net Interest Income. Net interest income for fiscal 2014 was $33.0 million, an increase of $4.2 million, or 14.6%, when compared to the prior fiscal year. The increase, as compared to the prior fiscal year, was attributable to a 21.0% increase in the average balance of interest-earning assets, primarily from the Fiscal 2014 Acquisitions, partially offset by a decline in the net interest margin, from 4.02% to 3.81%. Accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Fiscal 2011 Acquisition declined from $1.4 million in fiscal 2013 to $632,000 in fiscal 2014. This component of net interest income contributed seven basis points to net interest margin in fiscal 2014, as compared to 20 basis points in fiscal 2013. The Company expects the impact of the fair value discount accretion to continue to decline, over time, as the assets acquired at a discount continue to mature or prepay.

Interest Income. Interest income for fiscal 2014 was $40.5 million, an increase of $4.2 million, or 11.5%, when compared to the prior fiscal year. The increase was due to an increase of $150.4 million in the average balance of interest-earning assets, primarily from the Fiscal 2014 Acquisitions, partially offset by a 40 basis point decrease in the average yield earned on interest-earning assets, from 5.07% in fiscal 2013, to 4.67% in fiscal 2014.

Interest income on loans receivable for fiscal 2014 was $37.6 million, an increase of $3.2 million, or 9.3%, when compared to the prior fiscal year. The increase was due to a $117.6 million increase in the average balance of loans receivable, partially offset by a 45 basis point decrease in the average yield earned on loans receivable. Accretion of fair value discount on loans attributable to the Fiscal 2011 Acquisition declined from $1.4 million in fiscal 2013 to

$632,000 in fiscal 2014.

Interest income on the investment portfolio and other interest-earning assets was $2.9 million for fiscal 2014, an increase of $983,000, or 50.7%, when compared to the prior fiscal year. The increase was due to a $32.8 million increase in the average balance of these assets, combined with a 25 basis point increase in the average yield earned on these assets, as the Company shifted asset balances from excess reserves to relatively higher-yielding other investments, and acquired securities in a more favorable rate environment.

Interest Expense. Interest expense was $7.5 million for fiscal 2014, a decrease of $16,000, or 0.2%, when compared to the prior fiscal year. The decrease was due to a 23 basis point decrease in the average rate paid on interest-bearing liabilities, from 1.22% in fiscal 2013 to 0.99% in fiscal 2014, mostly offset by the $144.7 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits was $6.0 million for fiscal 2014, a decrease of $110,000, or 1.8%, when compared to the prior fiscal year. The decrease was due to a 21 basis point decrease in the average rate paid on deposits outstanding, reflecting the decrease in market rates, mostly offset by a $117.2 million increase in the average balance of interest-bearing deposits.

Interest expense on FHLB advances was $1.1 million for fiscal 2014, an increase of $86,000, or 8.6%, when compared to the prior fiscal year. The increase was due to a $28.6 million increase in the average balance of FHLB advances, partially offset by a 145 basis point decrease in the average rate paid on the advances.

Provision for Loan Losses. A provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered adequate by management to provide for probable loan losses based on prior loss experience, type and amount of loans in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Management also considers other factors relating to the collectability of the loan portfolio.

The provision for loan losses was $1.6 million for fiscal 2014, compared to $1.7 million for the prior fiscal year. The decrease in provision was attributed to management's analysis of the loan portfolio. The analysis noted reduced levels of net charge offs and nonperforming loans and stable levels of classified loans, partially offset by an increase in past due loans. In fiscal 2014, net charge offs were $773,000, compared to $822,000 for the prior fiscal year. At June 30, 2014, classified loans totaled $7.0 million, or 0.87% of gross loans, as compared to $5.5 million, or 0.84% of gross loans, at June 30, 2013. Classified loans were comprised primarily of commercial and residential real estate loans. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial and agricultural real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2014, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income was $6.1 million for fiscal 2014, an increase of $1.7 million, or 37.2%, when compared to 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), increased bank card interchange income, gains on sales of residential loans into the secondary market, increased loan fees, and gains on sales of AFS securities. Deposit account charges and fees, bank card interchange income, and gains on sales of residential loans all improved somewhat due to the Fiscal 2014 Acquisitions.

Noninterest Expense. Noninterest expense was $23.6 million for fiscal 2014, an increase of $6.1 million, or 35.0%, when compared to the prior fiscal year. Fiscal 2014 results included $1.2 million in merger-related charges related to the completed Fiscal 2014 Acquisitions and the pending acquisition of Peoples Service Company, with no corresponding charges in fiscal 2013. Additionally, the Company incurred a charge of $376,000 in fiscal 2014 due to the termination of its existing bank card processing contract. In total, the increases in noninterest expense were attributable to employee compensation and benefits, occupancy, legal and professional fees, bank card interchange expense, advertising, telecommunications, internet banking charges, and additional amortization of corer deposit intangibles resulting from the Fiscal 2014 Acquisitions. Compensation and benefits, occupancy, advertising, telecommunications, and internet banking charges were increased, in part, due to the Company’s expanded footprint and customer base resulting from the Fiscal 2014 Acquisitions.

Provision for Income Taxes. The Company recorded an income tax provision of $3.7 million for fiscal 2014, a decrease of $209,000, as compared to $4.0 million expensed for fiscal 2013. The effective tax rate for fiscal 2014 was 27.1%, as compared to 28.1% for fiscal 2013. The decrease in the effective tax rate was attributable to additional tax-advantaged investments in municipal securities and limited partnerships which generate tax credits, as well as lower pre-tax income in fiscal 2014.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Net Income. The Company's net income available to common stockholders for the fiscal year ended June 30, 2013, was $9.7 million, an increase of $142,000, or 1.5%, from the $9.6 million available to common stockholders for the prior fiscal year. Before an effective dividend on preferred shares of $345,000, net income was $10.1 million for the 2013 fiscal year, unchanged from the $10.1 million in net income for the prior fiscal year. Exclusive of fair value discount accretion on acquired loans and amortization of fair value premium on acquired time deposits related to the Fiscal 2011 Acquisition, net of tax, net income available to common stockholders for fiscal 2013 was $8.8 million, as compared to $7.1 million for fiscal 2012.

Net Interest Income. Net interest income for fiscal 2013 was $28.8 million, a decrease of $232,000, or 0.8%, when compared to the prior fiscal year. The decrease, as compared to the prior fiscal year, was attributable to a decline in the net interest margin, from 4.12% to 4.02%, partially offset by a 1.6% increase in the average balance of interest-earning assets. Accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Fiscal 2011 Acquisition declined from $3.9 million in fiscal 2012 to $1.4 million in fiscal 2013. This component of net interest income contributed 19 basis points to net interest margin in fiscal 2013, as compared to 57 basis points in fiscal 2012. The Company expects the impact of the fair value discount accretion to continue to decline, over time, as the assets acquired at a discount continue to mature or prepay.

Interest Income. Interest income for fiscal 2013 was $36.3 million, a decrease of $2.7 million, or 6.9%, when compared to the prior fiscal year. The decrease was due to a 46 basis point decrease in the average yield earned on interest-earning assets, from 5.53% in fiscal 2012, to 5.07% in fiscal 2013, partially offset by an increase of $11.2 million in the average balance of interest-earning assets.

Interest income on loans receivable for fiscal 2013 was $34.4 million, a decrease of $1.9 million, or 5.5%, when compared to the prior fiscal year. The decrease was due to a 96 basis point decrease in the average yield earned on loans receivable, partially offset by a $60.4 million increase in the average balance of loans receivable. Accretion of fair value discount on loans attributable to the Fiscal 2011 Acquisition declined from $3.7 million in fiscal 2012 to $1.3 million in fiscal 2013.

Interest income on the investment portfolio and other interest-earning assets was $1.9 million for fiscal 2013, a decrease of $680,000, or 26.0%, when compared to the prior fiscal year. The decrease was due to a $49.2 million decrease in the average balance of these assets partially offset by a 20 basis point increase in the average yield earned on these assets, as the Company shifted asset balances from excess reserves to relatively higher-yielding loans and other investments.

Interest Expense. Interest expense was $7.5 million for fiscal 2013, a decrease of $2.4 million, or 25.8%, when compared to the prior fiscal year. The decrease was due to a 41 basis point decrease in the average rate paid on interest-bearing liabilities, from 1.63% in fiscal 2012 to 1.22% in fiscal 2013, partially offset by the $1.8 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits was $6.1 million for fiscal 2013, a decrease of $2.1 million, or 26.3%, when compared to the prior fiscal year. The decrease was due to a 40 basis point decrease in the average rate paid on deposits outstanding, reflecting the decrease in market rates, partially offset by a $1.7 million increase in the average balance of interest-bearing deposits.

Interest expense on FHLB advances was $1.0 million for fiscal 2013, a decrease of $234,000, or 19.0%, when compared to the prior fiscal year. The decrease was due to a 74 basis point decrease in the average rate paid on advances, while the average balance of FHLB advances was unchanged.

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Provision for Loan Losses. A provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered adequate by management to provide for probable loan losses based on prior loss experience, type and amount of loans in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Management also considers other factors relating to the collectability of the loan portfolio.

The provision for loan losses was $1.7 million for fiscal 2013, compared to $1.8 million for the prior fiscal year. The decrease in provision was attributed to management's analysis of the loan portfolio, which noted an improving level of classified and delinquent loans, partially offset by an increase in loan balances. In fiscal 2013, net charge offs were $822,000, compared to $731,000 for the prior fiscal year. At June 30, 2013, classified loans totaled $5.5 million, or 0.84% of gross loans, as compared to $9.2 million, or 1.55% of gross loans at June 30, 2012. Classified loans were comprised primarily of commercial real estate loans and commercial business loans. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial and agricultural real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2013, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income was $4.5 million for fiscal 2013, an increase of $405,000, or 10.0%, when compared to the prior fiscal year. The increase was primarily the result of increased earnings on bank-owned life insurance (the result of a March 2012 investment in such policies), increased loan origination and other fees, and increases in bank card interchange income, partially offset by inclusion in the prior period's results of a benefit recognized on settlement of a legal claim obtained in the Fiscal 2011 Acquisition.

Noninterest Expense. Noninterest expense was $17.5 million for fiscal 2013, an increase of $915,000, or 5.5%, when compared to the prior fiscal year. The increase resulted primarily from higher employee compensation and benefits, occupancy, legal and professional fees, and postage and office supplies. The increase would have been larger, had the prior period's results not included $476,000 in FHLB prepayment penalties, with no corresponding charges in the current period. Compensation expenses were $10.1 million for fiscal 2013, an increase of $900,000 or 9.7%, when compared to the prior fiscal year. The increase was due to the addition of key personnel, increased salaries, and increased benefit expenses. Occupancy expenses were $2.8 million for fiscal 2013, an increase of $285,000, or 11.3%, as depreciation expense increased on new facilities and equipment during the year.

Provision for Income Taxes. The Company recorded an income tax provision of $3.9 million for fiscal 2013, a decrease of $654,000, as compared to $4.6 million expensed for fiscal 2012. The effective tax rate for fiscal 2013 was 28.1%, as compared to 31.3% for fiscal 2012. The decrease in the effective tax rate was attributable to additional tax-advantaged investments in municipal securities and limited partnerships which generate tax credits, as well as lower pre-tax income in fiscal 2013.

LIQUIDITY AND CAPITAL RESOURCES

Southern Missouri's primary potential sources of funds include deposit growth, securities sold under agreements to repurchase, FHLB advances, amortization and prepayment of loan principal, investment maturities and sales, and ongoing operating results. While scheduled repayments on loans and securities as well as the maturity of short-term investments are a relatively predictable source of funding, deposit flows, FHLB advance redemptions and loan and security prepayment rates are significantly influenced by factors outside of the Bank's control, including general economic conditions and market competition. The Bank has relied on FHLB advances as a source for funding cash or liquidity needs.

Southern Missouri uses its liquid assets as well as other funding sources to meet ongoing commitments, to fund loan demand, to repay maturing certificates of deposit and FHLB advances, to make investments, to fund other deposit withdrawals and to meet operating expenses. At June 30, 2014, the Bank had outstanding commitments to extend credit of $110.0 million (including $90.5 million in unused lines of credit). Total commitments to originate fixed-rate loans with terms in excess of one year were $6.0 million at rates ranging from 3.90% to 8.75%, with a weighted-average rate of 4.74%. Management anticipates that current funding sources will be adequate to meet foreseeable liquidity needs.

For the year ended June 30, 2014, Southern Missouri increased deposits and FHLB advances by $153.9 million and $61.0 million, respectively, and reduced securities sold under agreements to repurchase by $2.2 million. During the prior year, Southern Missouri increased deposits and securities sold under agreements to repurchase by $47.6 million and $2.1 million, respectively, as FHLB advances were unchanged. At June 30, 2014, the Bank had pledged $396.4 million of its residential and commercial real estate loan portfolios to the FHLB for available credit of approximately $281.2 million, of which $85.4 million had been advanced, and $0 had been used for the issuance of letters of credit to secure public unit deposits. The Bank had also pledged $108.7 million of its agricultural real estate and agricultural operating and equipment loans to the Federal Reserve's discount window for available credit of approximately $72.8 million, as of June 30, 2014, none of which had been advanced. In addition, the Bank has the ability to pledge several of its other loan portfolios, including, for example, its home equity and commercial business loans. In total, FHLB borrowings are generally limited to 35% of Bank assets, or approximately $345.4 million as most recently reported to the FHLB on June 30, 2014, which means that an amount up to $259.9 million may still be eligible to be borrowed from the FHLB, subject to available collateral. Along with the ability to borrow from the FHLB and Federal Reserve, management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Liquidity management is an ongoing responsibility of the Bank's management. The Bank adjusts its investment in liquid assets based upon a variety of factors including (i) expected loan demand and deposit flows, (ii) anticipated investment and FHLB advance maturities, (iii) the impact on profitability, and (iv) asset/liability management objectives.

At June 30, 2014, the Bank had $207.4 million in CDs maturing within one year and $488.2 million in other deposits and securities sold under agreements to repurchase without a specified maturity, as compared to the prior year of $161.0 million in CDs maturing within one year and $387.9 million in other deposits and securities sold under agreements to repurchase without a specified maturity. Management believes that most maturing interest-bearing liabilities will be retained or replaced by new interest-bearing liabilities. Also at June 30, 2014, the Bank had $59.9 million in overnight advances from the FHLB, and $25.0 million in FHLB advances eligible for early redemption by the lender within one year.

REGULATORY CAPITAL

Federally insured financial institutions are required to maintain minimum levels of regulatory capital. Federal Reserve regulations establish capital requirements, including a leverage (or core capital) requirement and a risk-based capital requirement. The Federal Reserve is also authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

At June 30, 2014, the Bank exceeded regulatory capital requirements with core and total risk-based capital of $105.3 million and $114.8 million, or 10.69% and 15.07% of adjusted total assets and risk-weighted assets, respectively. These capital levels exceeded minimum requirements of 4.0% and 8.0%, respectively, and well-capitalized requirements of 5% and 10%, respectively for adjusted total assets and risk-weighted assets. At June 30, 2014, the Company exceeded regulatory capital requirements with core and total risk based capital of $116.3 million and $125.9 million, or 11.71% and 16.38% of adjusted total assets and risk-weighted assets, respectively. These capital levels exceed minimum requirements of 4.0% and 8.0%, respectively. See Note 13 of the Notes to the Consolidated Financial Statements contained in Item 8.

IMPACT OF INFLATION

The consolidated financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates generally have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. In the current interest rate environment, liquidity and maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

AVERAGE BALANCE, INTEREST AND AVERAGE YIELDS AND RATES

The table on the following page sets forth certain information relating to the Company's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and the average cost of liabilities for the periods indicated. These yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the years indicated. Nonaccrual loans are included in the net loan category.

The table also presents information with respect to the difference between the weighted-average yield earned on interest-earning assets and the weighted-average rate paid on interest-bearing liabilities, or interest rate spread, which financial institutions have traditionally used as an indicator of profitability. Another indicator of an institution's net interest income is its net yield on interest-earning assets, which is its net interest income divided by the average balance of interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

(dollars in thousands)	2014			2013			2012		
Year Ended June 30	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest-earning assets:									
Mortgage loans (1)	$572,409	$28,922	5.05%	$464,216	$25,907	5.58%	$405,818	$26,561	6.55%
Other loans (1)	164,912	8,629	5.23	155,471	8,448	5.43	153,480	9,788	6.38
Total net loans	737,321	37,551	5.09	619,687	34,355	5.54	559,298	36,349	6.50
Mortgage-backed securities	42,948	943	2.20	17,159	341	1.99	20,197	925	4.58
Investment securities (2)	78,064	1,951	2.50	62,800	1,528	2.43	52,450	1,482	2.83
Other interest-earning assets	7,950	25	0.31	16,227	67	0.41	72,683	209	0.29
TOTAL INTEREST-EARNING ASSETS (1)	866,283	40,470	4.67	715,873	36,291	5.07	704,628	38,965	5.53
Other noninterest-earning assets (3)	57,362	---	---	48,751	---	---	33,975	---	---
TOTAL ASSETS	$923,645	40,470	---	$764,624	36,291	---	$738,603	38,965	---
Interest-bearing liabilities:									
Savings accounts	$89,924	311	0.35	$84,191	421	0.50	$92,961	731	0.79
NOW accounts	245,915	2,103	0.86	200,108	2,132	1.07	181,390	3,229	1.78
Money market accounts	25,469	73	0.29	21,275	124	0.58	17,754	158	0.89
Certificates of deposit	304,442	3,477	1.14	243,005	3,396	1.40	254,804	4,125	1.62
TOTAL INTEREST-BEARING DEPOSITS	665,750	5,964	0.90	548,579	6,073	1.11	546,909	8,243	1.51
Borrowings:									
Securities sold under agreements to repurchase	24,492	131	0.53	27,359	202	0.74	26,956	235	0.87
FHLB advances	58,926	1,085	1.84	30,374	999	3.29	30,624	1,233	4.03
Junior subordinated debt	9,011	305	3.38	7,217	227	3.15	7,217	232	3.21
TOTAL INTEREST-BEARING LIABILITIES	758,179	7,485	0.99	613,529	7,501	1.22	611,706	9,943	1.63
Noninterest-bearing demand deposits	41,507	---	---	51,472	---	---	42,261	---	---
Other liabilities	18,372	---	---	836	---	---	2,055	---	---
	818,058	7,485	0.91	665,837	7,501	1.13	656,022	9,943	1.52

TOTAL LIABILITIES									
Stockholders' equity	105,586	---	---	98,787	---	---	82,581	---	---
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$923,644	7,485	0.81	$764,624	7,501	0.98	$738,603	9,943	1.35
Net interest income		$32,985			$28,790			$29,022	
Interest rate spread (4)			3.68%			3.85%			3.90%
Net interest margin (5)			3.81%			4.02%			4.12%
Ratio of average interest-earning assets to average interest-bearing liabilities	114.26 %			116.68 %			115.19 %		

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(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Nonaccrual loans are included in average loans.
(2) Includes FHLB stock, FRB stock, and related cash dividends.
(3) Includes equity securities and related cash dividends.
(4) Represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Represents net interest income divided by average interest-earning assets.

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YIELDS EARNED AND RATES PAID

The following table sets forth for the periods and at the date indicated, the weighted average yields earned on the Company's assets, the weighted average interest rates paid on the Company's liabilities, together with the net yield on interest-earning assets.

	At June 30, 2014	For The Year Ended June 30, 2014	2013	2012
Weighted-average yield on loan portfolio	4.95 %	5.09 %	5.54 %	6.50 %
Weighted-average yield on mortgage-backed securities	2.40	2.20	1.99	4.58
Weighted-average yield on investment securities (1)	2.61	2.45	2.43	2.83
Weighted-average yield on other interest-earning assets	0.30	0.31	0.41	0.29
Weighted-average yield on all interest-earning assets	4.57	4.67	5.07	5.53
Weighted-average rate paid on deposits	0.85	0.90	1.11	1.51
Weighted-average rate paid on securities sold under agreements to repurchase	0.53	0.53	0.74	0.87
Weighted-average rate paid on FHLB advances	1.39	1.84	3.29	4.03
Weighted-average rate paid on subordinated debt	3.35	3.38	3.15	3.21
Weighted-average rate paid on all interest-bearing liabilities	0.85	0.99	1.22	1.63
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	3.71	3.68	3.85	3.90
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.82	3.81	4.02	4.12

(1) Includes Federal Home Loan Bank, Federal Reserve Bank stock.

RATE/VOLUME ANALYSIS

The following table sets forth the effects of changing rates and volumes on net interest income of the Company. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate), (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

Years Ended June 30, Years Ended June 30,

	2014 Compared to 2013 Increase (Decrease) Due to				2013 Compared to 2012 Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:								
Loans receivable (1)	$(2,789)	$6,517	$(532)	$3,196	$(5,369)	$3,925	$(550)	$(1,994)
Mortgage-backed securities	36	513	53	602	(523)	(139)	78	(584)
Investment securities (2)	44	371	8	423	(210)	293	(36)	47
Other interest-earning deposits	(15)	(34)	7	(42)	87	(164)	(66)	(143)
Total net change in income on interest-earning assets	(2,724)	7,367	(464)	4,179	(6,015)	3,915	(574)	(2,674)
Interest-bearing liabilities:								
Deposits	(1,259)	1,404	(255)	(110)	(2,172)	104	(101)	(2,169)
Securities sold under agreements to repurchase	(55)	(21)	6	(70)	(35)	4	(2)	(33)
Subordinated debt	17	57	4	78	(4)	---	(1)	(5)
FHLB advances	(440)	939	(413)	86	(227)	(10)	3	(234)
Total net change in expense on interest-bearing liabilities	(1,737)	2,379	(658)	(16)	(2,438)	98	(101)	(2,441)
Net change in net interest income	$(987)	$4,988	$194	$4,195	$(3,577)	$3,817	$(473)	$(233)

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

Item 7A Quantitative and Qualitative Disclosures About 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 Company 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 repricing 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 increase its interest rate risk position in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Company has utilized longer term (up to 10 year maturities), fixed-rate FHLB advances, which may be subject to early redemption, to offset interest rate risk. Other elements of the Company's current asset/liability strategy include: (i) increasing originations of commercial real estate, commercial business loans, agricultural real estate, and agricultural operating lines, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk, (ii) limiting the price volatility of the investment portfolio by maintaining a weighted average maturity of five years or less, (iii) actively soliciting less rate-sensitive deposits, and (iv) 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 generate long-term, fixed-rate residential loans. During the fiscal year ended June 30, 2014, fixed rate residential loan originations totaled $32.7 million (of which $9.4 million was originated for sale into the secondary market), compared to $15.5 million during the prior year (of which $7.6 million was originated for sale into the secondary market). At June 30, 2014, the fixed-rate residential loan portfolio totaled $105.5 million, with a weighted average maturity of 171 months, compared to $111.5 million with a weighted average maturity of 184 months at June 30, 2013. The Company originated $31.9 million in adjustable rate residential loans during the fiscal year ended June 30, 2014, compared to $40.3 million during the prior fiscal year. At June 30, 2014, fixed rate loans with remaining maturities in excess of 10 years totaled $46.6 million, or 5.8%, of loans receivable, compared to $55.0 million, or 8.5%, of loans receivable, at June 30, 2013. The Company originated $113.0 million in fixed rate commercial and commercial real estate loans during the year ended June 30, 2014, compared to $95.4 million during the prior fiscal year. The Company also originated $68.3 million in adjustable rate commercial and commercial real estate loans during the fiscal year ended June 30, 2014, compared to $66.2 million during the prior year. At June 30, 2014, adjustable-rate home equity lines of credit increased to $17.9 million, compared to $15.8 million as of June 30, 2013. At June 30, 2014, the Company's weighted average life of its investment portfolio was 5.0 years, compared to 4.1 years at June 30, 2013. At June 30, 2014, CDs with original terms of two years or more totaled $115.8 million, compared to $111.2 million at June 30, 2013.

INTEREST RATE SENSITIVITY ANALYSIS

The following table sets forth as of June 30, 2014 and 2013, management's estimates of the projected changes in net portfolio value in the event of 1%, 2% and 3%, instantaneous, permanent increases or decreases in market interest rates.

Computations in the table below are based on prospective effects of hypothetical changes in interest rates and are based on an internally generated model using the actual maturity and repricing schedules for Southern Bank's loans and deposits, adjusted by management's assumptions for prepayment rates and deposit runoff. Further, the computations do not consider any reactions that the Bank may undertake in response to changes in interest rates. These projected changes should not be relied upon as indicative of actual results in any of the aforementioned interest rate changes.

Management cannot accurately predict future interest rates or their effect on the Company's NPV and net interest income in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV and net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Additionally, most of Southern Bank's loans have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the foregoing table. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

	June 30, 2014				
				NPV as Percentage of PV of Assets	
		Net Portfolio			
Change in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change (basis points)
	(dollars in thousands)			(%)	
+300 bp	$93,966	$(20,788)	(18)	9.32	-177
+200 bp	101,125	(13,628)	(12)	9.95	-115
+100 bp	107,345	(7,409)	(6)	10.48	-62
0 bp	114,754	---	---	11.10	---
-100 bp	123,482	8,728	8	13.49	74
-200 bp	132,190	17,436	15	13.96	148
-300 bp	140,398	25,644	22	14.47	217