SOUTHERN MISSOURI BANCORP, INC.
Form 10-K
September 13, 2018
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, 2018 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.)
2991 Oak Grove Road, 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 __ 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 __ 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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the high and low traded price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was $269.5 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of September 13, 2018, there were issued and outstanding 8,996,584 shares of the Registrant's common stock.
DOCUMENTS INCORPORATED BY REFERENCE
Part III of Form 10-K - Portions of the Proxy Statement for the 2018 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 Board of Governors of the Federal Reserve System ("Federal Reserve Board" or "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, 2018, the Company had total assets of $1.9 billion, total deposits of $1.6 billion and stockholders' equity of $200.7 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank. The Company's revenues are derived principally from interest earned on loans, debt securities, MBS, CMOs and, to a lesser extent, banking service charges, bank card interchange fees, gains on sales of loans, loan late charges, increases in the cash surrender value of bank owned life insurance, and other fee income.

Recent Events

On June 12, 2018 the Company announced the signing of an agreement and plan of merger whereby Gideon Bancshares Company ("Gideon"), and its wholly owned subsidiary, First Commercial Bank ("First Commercial"), will be acquired by the Company in a stock and cash transaction valued at approximately $23.2 million, (representing 97.5% of Gideon's anticipated capital, as adjusted, at closing). At June 30, 2018, Gideon held consolidated assets of $227 million, loans, net, of $155 million, and deposits of $171 million. The transaction is expected to close in the fourth quarter of calendar year 2018, subject to satisfaction of customary closing conditions, including regulatory and shareholder approvals. First Commercial is expected to be merged with and into Southern Bank shortly after or simultaneously with the acquisition of Gideon. Through June 30, 2018, the Company incurred $75,000 of third-party acquisition-related costs. The expenses are included in noninterest expense in the Company's consolidated statement of income for the year ended June 30, 2018.

Acquisitions

On February 23, 2018, the Company completed its acquisition of Southern Missouri Bancshares, Inc. ("Bancshares"), and its wholly owned subsidiary, Southern Missouri Bank of Marshfield ("SMB-Marshfield"), in a stock and cash transaction. SMB-Marshfield was merged into the Bank at acquisition. At closing, Bancshares held total assets of $86.2 million, loans, net, of $68.3 million, and deposits of $68.2 million. The Company acquired SMB-Marshfield primarily for the purpose of conducting commercial banking activities in markets where it believes the Company's business model will perform well, and for the long-term value of its core deposit franchise. The goodwill of $4.4 million arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of the Bank and SMB-Marshfield. Goodwill from this transaction was assigned to the acquisition of the bank holding company, and is not expected to be deductible for tax purposes.

On June 16, 2017, the Company completed its acquisition of Tammcorp, Inc. (Tammcorp), and its subsidiary, Capaha Bank (Capaha), Tamms, Illinois, in a stock and cash transaction. Capaha was merged into the Bank at acquisition. At closing, Tammcorp held total assets of $187 million, loans, net, of $153 million, and deposits of $167 million. The Company acquired Capaha primarily for the purpose of expanding its commercial banking activities to markets where it believes the Company's business model will perform well, and for the long-term value of its core deposit franchise. A Tammcorp note payable of $3.7 million was contractually required to be repaid in conjunction with the acquisition. The goodwill of $4.1 million arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of the Bank and Capaha. Goodwill from this transaction was assigned to the acquisition of the bank holding company, and is not expected to be deductible for tax purposes.

On August 5, 2014, the Company completed its acquisition of Peoples Service Company (PSC) and its subsidiaries, Peoples Banking Company (PBC) and Peoples Bank of the Ozarks (Peoples), Nixa, Missouri, in a stock and cash transaction (the "Peoples Acquisition"). Peoples was merged into the Bank in early December, 2014, in connection with the conversion of Peoples' data system. At closing, PSC held total assets of $267 million, loans, net, of $193 million, and deposits of $221 million. The Company acquired Peoples primarily for the purpose of expanding its commercial banking activities to markets where it believes the Company's business model will perform well, and for the long-term value of its core deposit franchise. Notes payable of $2.9 million were contractually required to be repaid on the date of acquisition. The goodwill of $3.0 million arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of the Bank and Peoples. Goodwill from this transaction was assigned to the acquisition of the bank holding company, and is not expected to be deductible for tax purposes.

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. (The Ozarks Legacy and Citizens acquisitions are referred to as the "Fiscal 2014 Acquisitions" collectively.)

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 (the "Fiscal 2011 Acquisition"). As a result of the transaction, the Company acquired loans recorded at a fair value of $115 million and assumed deposits recorded at a fair value of $131 million, at December 17, 2010.

Capital Raising Transactions

On June 20, 2017, the Company completed an at-the-market common stock issuance. A total of 794,762 shares of the Company's common stock were sold at a weighted-average price of approximately $31.46 per share, representing gross proceeds to the Company of approximately $25.0 million. The proceeds from the transaction have been used for general corporate purposes, including working capital to support organic growth at Southern Bank, and to support acquisitions to the extent available.

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

The SBLF Preferred Stock qualified as Tier 1 capital. The SBLF Preferred Stock was 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 10 quarters during which the SBLF Preferred Stock was outstanding, based upon changes in the Bank's level of Qualified Small Business Lending (QBSL), as defined in the Purchase Agreement. Based upon the increase in the Bank's level of QBSL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period was set at 2.8155%. For the second through ninth calendar quarters, the dividend rate was adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QBSL. For the tenth calendar quarter through four and one half years after issuance, the dividend rate was fixed at between one percent (1%) and seven percent (7%) based upon the increase in QBSL as compared to the baseline. After four and one half years from issuance, the dividend rate increased to 9% (including a quarterly lending incentive fee of 0.5%).

As required by the Purchase Agreement, $9,635,000 of the proceeds from the sale of the SBLF Preferred Stock was used to redeem the 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A issued in 2008 to the Treasury in the Troubled Asset Relief Program (TARP), plus the accrued dividends owed on those preferred shares. As part of the 2008 TARP transaction, the Company had issued a ten-year warrant to Treasury to purchase 228,652 shares (split-adjusted) of the Company's common stock at an exercise price (split-adjusted) of $6.27 per share. The Company repurchased the warrant on May 29, 2015, for $2.7 million. Immediately prior to the repurchase, the warrant had been exercisable for the purchase of 231,891 shares (split-adjusted) at an exercise price of $6.18 per share.

The Company noted in a Current Report on Form 8-K filed October 16, 2015, that it redeemed all 20,000 shares of the Company's SBLF Preferred Stock. The shares of SBLF Preferred Stock were redeemed at their liquidation amount of $1,000 per share plus accrued but unpaid dividends to the redemption date.

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 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;

4

- 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 markets, as well as agricultural business conditions;
- demand for loans and deposits;
- legislative or regulatory changes that adversely affect our business;
- changes in accounting principles, policies, or guidelines;
- 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, as well as 37 full service branch offices and three limited service branch offices located in Poplar Bluff (4), Van Buren, Dexter, Kennett, Doniphan, Sikeston, Qulin, Matthews, Springfield (3), Thayer (2), West Plains, Alton, Clever, Forsyth, Fremont Hills, Kimberling City, Ozark, Nixa, Rogersville, Marshfield (2), Cape Girardeau (2), and Jackson, Missouri; Jonesboro (2), Paragould, Batesville, Searcy, Bald Knob and Bradford, Arkansas; and Anna, Cairo, and Tamms, Illinois.

For purposes of management and oversight of its operations, the Bank has organized its facilities into three regional markets. The Bank's east region includes 17 of its facilities, which are situated in or directly adjacent to Butler, Cape Girardeau, Carter, New Madrid, Ripley, Scott, and Stoddard counties in Missouri, and Alexander and Union counties in Illinois. These counties have a total population of approximately 252,000, and included within this market area is the Cape Girardeau, Missouri, Metropolitan Statistical Area (MSA), which has a population of approximately 97,000. The Bank's south region includes 12 of its facilities, which are situated in Dunklin, Howell, and Oregon counties in Missouri, and Craighead, Greene, Independence, and White counties in Arkansas. These counties have a total population of approximately 348,000, and included within this market area is the Jonesboro, Arkansas, MSA, which has a population of approximately 131,000. The Bank's west region includes 12 of its facilities, which are situated in Christian, Greene, Stone, Taney, and Webster counties in Missouri. These counties have a total population of approximately 484,000, and included within this market area is the Springfield, Missouri, MSA, which has a population of approximately 462,000. Each of these markets also serves a few communities just outside these county borders which do not have a notable impact on the demographics of the market area.

The Bank's east and south regions are generally rural in nature with economies supported by manufacturing activity, agriculture (livestock, dairy, poultry, rice, timber, soybeans, wheat, melons, corn, and cotton), healthcare, and education. Large employers include hospitals, manufacturers, school districts, and colleges. In the west region, the Bank's operations are generally more concentrated in the Springfield, Missouri, MSA, and major employers include healthcare providers, educational institutions, federal, local, and state government, retailers, transportation and distribution firms, and leisure, entertainment, and hospitality interests. For purposes of the Bank's lending policy, the Bank's primary lending area is considered to be the counties where the Bank has a branch facility, and any contiguous county.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. At June 30, 2018, the Bank was one of 27 bank or saving association groups located in its east region competing for approximately $5.6 billion in deposits at FDIC-insured institutions, one of 35 bank or saving association groups located in its south region (eight of these institutions overlap with the Bank's east region) competing for $7.6 billion in deposits, and one of 39 bank or savings association groups located in its west region (13 of these overlap with the Bank's east or south regions) competing for $10.4 billion in deposits.

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 and Information

The Company maintains a website at www.bankwithsouthern.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company currently makes available on or through its website 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 originating loans secured by mortgages on one- to four-family and multi-family 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 which are 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, Rick Windes, Regional President Justin G. Cox, and our Chief Credit Officer, Mark E. Hecker. The Chief Lending Officer and Regional President are responsible for oversight of loan production. The Chief Credit Officer is responsible for oversight of underwriting, loan policy, and administration. 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 one of three Regional Small Business Loan Committees, one of three Regional Senior Loan Committees, an Agricultural Loan Committee, or a Senior Agricultural Loan Committee.

The Regional Small Business Loan Committees each consists of lenders selected by the Chief Lending Officer, Regional President, and Chief Credit Officer (our "Senior Lending and Credit Officers"), and is authorized to approve lending relationships up to $1.5 million. The Regional Senior Loan Committees each consists of one director appointed by the Board of Directors, and senior lenders selected by our Senior Lending and Credit Officers. Each Regional Senior Loan Committee is authorized to approve lending relationships up to $3.0 million. The Bank's

6

Agricultural Loan Committee consists of several lending officers with agricultural lending experience selected by our Senior Lending and Credit Officers, and is authorized to approve agricultural lending relationships up to $1.5 million. The Senior Agricultural Loan Committee consists of our Chief Credit Officer, as well as several senior lending officers with agricultural lending experience selected by our Senior Lending and Credit Officers. The Senior Agricultural Loan Committee is authorized to approve agricultural lending relationships up to $3.0 million.
Lending relationships above $3.0 million require approval of our Bank Senior Loan Committee, comprised of our Senior Lending and Credit Officers, and an additional senior lender from each region, or the approval of our Executive Loan Committee, comprised of our Chief Executive Officer, Chief Lending Officer, Chief Credit Officer, and Regional President. In addition to the approval of the Bank Senior Loan Committee or the Executive Loan Committee, lending relationships in excess of $4.0 million require the approval of the Discount Committee, which is comprised of all Bank directors. 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, 2018, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately $54.9 million. At June 30, 2018, the Bank's ten largest credit relationships, as defined by loan to one borrower limitations, ranged from $28.6 million to $15.3 million, net of participation interests sold. As of June 30, 2018, the majority of these credits were commercial real estate, multi-family real estate, or commercial business loans, and all of these relationships were performing in accordance with 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, 2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Pe
			(Dollars in thousands)							
Type of Loan:										
Mortgage Loans:										
Residential real estate	$450,919	28.84 %	$442,463	31.66 %	$392,974	34.61 %	$377,465	35.84 %	$303,901	37
Commercial real estate (1)	704,647	45.07	603,922	43.21	452,052	39.81	404,720	38.43	308,520	38
Construction	112,718	7.21	106,782	7.63	77,369	6.82	69,204	6.57	40,738	5.
Total mortgage loans	1,268,284	81.12	1,153,167	82.50	922,395	81.24	851,389	80.84	653,159	81
Other Loans:										
Automobile loans	9,056	0.58	6,378	0.46	6,221	0.55	6,333	0.60	8,276	1.
Commercial business (2)	281,272	17.99	247,184	17.68	202,045	17.79	191,886	18.22	141,072	17
Home equity	39,218	2.51	35,222	2.52	25,146	2.21	23,472	2.23	17,929	2.
Other	30,297	1.94	22,051	1.58	15,174	1.34	16,965	1.61	9,018	1.
Total other loans	359,843	23.02	310,835	22.24	248,586	21.89	238,656	22.66	176,295	22
Total loans	1,628,127	104.14	1,464,002	104.74	1,170,981	103.13	1,090,045	103.50	829,454	10
Less:										
Undisbursed loans in process	46,533	2.98	50,740	3.63	21,779	1.92	24,688	2.34	19,261	2.
Deferred fees and discounts	---	---	(6)	(0.00)	(42)	(0.00)	(87)	(0.01)	(122)	(0
Allowance for loan losses	18,214	1.16	15,538	1.11	13,791	1.21	12,298	1.17	9,259	1.
Net loans receivable	$1,563,380	100.00 %	$1,397,730	100.00 %	$1,135,453	100.00 %	$1,053,146	100.00 %	$801,056	10
Type of Security:										
Residential real estate										
One- to four-family	$414,258	26.50 %	$352,723	25.24 %	$326,186	28.73 %	$316,804	30.08 %	$235,947	29
Multi-family	137,238	8.78	151,585	10.85	128,980	11.36	118,178	11.22	87,161	10
	502,073	32.11	463,890	33.19	329,781	29.04	296,082	28.11	243,090	30

Commercial real estate										
Land	214,715	13.73	184,967	13.23	137,448	12.11	120,327	11.43	86,960	10
Commercial	281,272	17.99	247,184	17.68	202,045	17.79	191,884	18.22	141,072	17
Consumer and other	78,571	5.03	63,653	4.55	46,541	4.10	46,770	4.44	35,224	4.
Total loans	1,628,127	104.14	1,464,002	104.74	1,170,981	103.13	1,090,045	103.50	829,454	10
Less:										
Undisbursed loans in process	46,533	2.98	50,740	3.63	21,779	1.92	24,688	2.34	19,261	2.
Deferred fees and discounts	---	---	(6)	(0.00)	(42)	(0.00)	(87)	(0.01)	(122)	(0
Allowance for loan losses	18,214	1.16	15,538	1.11	13,791	1.21	12,298	1.17	9,259	1.
Net loans receivable	$1,563,380	100.00%	$1,397,730	100.00%	$1,135,453	100.00%	$1,053,146	100.00%	$801,056	10

(1) Commercial real estate loan balances included farmland and other agricultural-related real estate loans of $160.3 million, $140.0 million, $102.2 million, $82.0 million and $63.8 million as of June 30, 2018, 2017, 2016, 2015 and 2014, respectively.

(2) Commercial business loan balances included agricultural equipment and production loans of $81.5 million, $85.7 million, $73.3 million, $57.9 million and $53.4 million as of June 30, 2018, 2017, 2016, 2015 and 2014, respectively.

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

	At June 30,								
	2018		2017		2016		2015		2014
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
			(Dollars in thousands)						
Type of Loan:									
Fixed-Rate Loans:									
Residential real estate	$207,405	13.27 %	$189,054	13.53 %	$172,901	15.23 %	$171,479	16.28 %	$136,357
Commercial real estate	557,556	35.66	476,132	34.06	356,613	31.41	313,361	29.75	211,833
Construction	104,995	6.72	89,542	6.40	58,330	5.14	51,973	4.94	38,928
Consumer	36,784	2.35	26,305	1.88	21,338	1.88	22,973	2.18	17,233
Commercial business	151,766	9.71	137,613	9.85	137,426	12.10	127,017	12.06	86,961
Total fixed-rate loans	1,058,506	67.71	918,646	65.72	746,608	65.76	686,803	65.21	491,312
Adjustable-Rate Loans:									
Residential real estate	243,514	15.58	253,409	18.13	220,073	19.38	205,986	19.56	167,544
Commercial real estate	147,091	9.41	127,790	9.14	95,439	8.41	91,359	8.67	96,686
Construction	7,723	0.49	17,240	1.23	19,039	1.68	17,231	1.64	1,810
Consumer	41,787	2.67	37,346	2.67	25,203	2.22	23,797	2.26	17,990
Commercial business	129,506	8.28	109,571	7.85	64,619	5.68	64,869	6.16	54,112
Total adjustable-rate loans	569,621	36.43	545,356	39.02	424,373	37.37	403,242	38.29	338,142
Total loans	1,628,127	104.14	1,464,002	104.74	1,170,981	103.13	1,090,045	103.50	829,454
Less:									
Undisbursed loans in process	46,533	2.98	50,740	3.63	21,779	1.92	24,688	2.34	19,261
Net deferred loan fees	---	---	(6)	(0.00)	(42)	(0.00)	(87)	(0.01)	(122)
Allowance for loan loss	18,214	1.16	15,538	1.11	13,791	1.21	12,298	1.17	9,259
Net loans receivable	$1,563,380	100.00%	$1,397,730	100.00%	$1,135,453	100.00%	$1,053,146	100.00%	$801,056

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, 2018, residential loans secured by one- to four-family residences totaled $343.4 million, or 23.7% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2018, the Bank originated $35.0 million of ARM loans and $30.6 million of fixed-rate loans that were secured by one- to four-family residences, for retention in the Bank's portfolio. An additional $29.8 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 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% loan-to-value, the Bank charges an additional 50-75 basis points, but does not require private mortgage insurance. At June 30, 2018, the remaining balance of loans originated with a loan-to-value ratio in excess of 80% was $76.0 million. For fiscal years ended June 30, 2018, 2017, 2016, 2015 and 2014, originations of one- to four-family loans in excess of 80% loan-to-value have totaled $26.3 million, $25.0 million, $16.5 million, $24.3 million and $13.6 million, respectively, totaling $105.7 million. The remaining balance of those loans at June 30, 2018, was $60.9 million. Originating loans with higher loan-to-value ratios presents additional credit risk to the Bank. Consequently, the Bank 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 loan 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 rate 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, 2018, one- to four-family loans with a fixed rate totaled $161.2 million, and had a weighted-average maturity of 100 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, 2018, one- to four-family loans tied to the CMT index totaled $136.8 million. One- to four-family loans tied to other indices totaled $46.3 million.

In underwriting one- to four-family residential real estate loans, the Bank evaluates the borrower's ability to meet debt service requirements at current as well as fully indexed rates for ARM loans, as well as the value of the property securing the loan. Most properties securing real estate loans made by the Bank during fiscal 2018 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 Bank 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, 2018, the Bank had $107.5 million, or 7.4% 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 Bank 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 Bank generally requires a Board-approved independent certified fee appraiser to be engaged in determining the collateral value. As a general rule, the Bank 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 multi-family 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 evaluates 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), shopping centers, retail establishments, nursing homes and other healthcare related facilities, and other businesses generally located in the Bank's market area. At June 30, 2018, the Bank had $704.6 million in commercial real estate loans, which represented 45.1% of net loans receivable. Of this amount, $160.3 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 Bank expects to continue to grow its agricultural lending portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Bank expects to continue to maintain or increase the percentage of commercial real estate loans, inclusive of agricultural properties, in its total portfolio.

Commercial real estate loans originated by the Bank are generally based on amortization schedules of up to 25 years with monthly principal and interest payments. Generally, these loans have fixed interest rates and maturities ranging up to seven 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 44 months. Variable rate commercial real estate originations typically adjust daily, monthly, quarterly or annually based on the Wall Street prime rate. Generally, loans for improved commercial properties 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 annual, instead of monthly, payments. 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, 2018, the Bank had $112.7 million, or 7.2% 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, 2018, $70.9 million of the Bank's construction loans were secured by one- to four-family residential real estate (of which $6.3 million was for speculative construction), $29.7 million of which were secured by multi-family residential real estate, and $12.1

million of which were secured by commercial real estate. During construction, these loans typically require monthly

11

interest-only payments and have maturities ranging from 6 to 12 months. Once construction is completed, construction loans may be converted to permanent financing, generally with monthly payments using amortization schedules of up to 30 years on residential and up to 25 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, second mortgage, mobile home and deposit-secured loans. 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, 2018, the Bank's consumer loan portfolio totaled $78.6 million, or 5.0% of net loans receivable.

Home equity loans represented 49.9% of the Bank's consumer loan portfolio at June 30, 2018, and totaled $39.2 million, or 2.5% of net loans receivable.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are generally issued for up to 90% 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 generally secured by stronger collateral than other consumer loans and, because of the adjustable rate structure, present less interest rate risk to the Bank.

Automobile loans represented 11.5% of the Bank's consumer loan portfolio at June 30, 2018, and totaled $9.1 million, or 0.58% 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, 2018, the Bank had $281.3 million in commercial business loans outstanding, or 18.0%

of net loans receivable. Of this amount, $81.5 million were loans related to agriculture, including amortizing equipment loans and annual production lines. 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 $151.8 million in fixed rate and $129.5 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, 2018. Commitments to extend credit totaled $266.8 million at June 30, 2018.

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
	(Dollars in thousands)				
Federal Home Loan Bank advances	$74,300	$2,110	$242	$---	$76,652
Certificates of deposit	311,440	176,794	45,217	---	533,451
Total	$385,740	$178,904	$45,459	$---	$610,103

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
	(Dollars in thousands)				
Construction loans in process	$46,533	$---	$---	$---	$46,533
Other commitments	183,426	6,624	5,367	24,852	220,269
	$229,959	$6,624	$5,367	$24,852	$266,802

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2018, 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
	(Dollars in thousands)				
Residential real estate	$174,465	$213,637	$33,683	$29,134	$450,919
Commercial real estate	205,553	377,277	117,739	4,078	704,647
Construction	97,893	7,258	7,053	514	112,718
Consumer	54,566	23,079	788	138	78,571
Commercial business	182,441	82,229	10,574	6,028	281,272
Total loans	$714,918	$703,480	$169,837	$39,892	$1,628,127

As of June 30, 2018, loans with a maturity date after June 30, 2019, with fixed interest rates totaled $752.5 million, and loans with a maturity date after June 30, 2019, with adjustable rates totaled $160.7 million.

Loan Originations, Sales and Purchases

Generally, all loans are originated by the Bank's staff, who are salaried loan officers. All loan officers are eligible for bonuses based on production, market performance, and credit quality. Certain lenders, in particular, those originating higher volume of residential loans for sale on the secondary market, may earn a relatively higher percentage of their total compensation through bonuses. Loan applications are generally taken and processed at each of the Bank's full-service locations, and the Bank in recent years 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 2018, the Bank originated $550.5 million of loans, compared to $494.9 million and $425.9 million, respectively, in fiscal 2017 and 2016. Of these loans, mortgage loan originations were $397.9 million, $399.2 million and $334.2 million in fiscal 2018, 2017 and 2016, respectively. Increases in originations over recent periods is attributed primarily to an expanded market area and customer base following recent acquisitions.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2018, the Bank purchased $4.6 million of new loan participations. At June 30, 2018, loan participations totaled $15.7 million, or 1.01% of net loans receivable. At June 30, 2018, all of these participations were performing in accordance with 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, 2018	2017	2016
		(Dollars in thousands)	
Total loans at beginning of period	$1,464,002	$1,170,981	$1,090,045
Loans originated:			
One- to four-family residential	96,061	94,733	78,356
Multi-family residential and commercial real estate	185,914	235,427	179,253
Construction loans	115,919	69,087	76,579
Commercial business	134,318	78,342	76,257
Consumer and others	18,316	17,326	15,416
Total loans originated	550,528	494,915	425,861
Loans purchased:			
Total loans purchased [(1)]	72,846	158,808	5,760
Loans sold:			
Total loans sold	(64,073)	(56,131)	(22,898)
Principal repayments	(386,912)	(295,615)	(319,510)
Participation principal repayments	(6,098)	(7,758)	(7,621)
Foreclosures	(2,166)	(1,198)	(656)
Net loan activity	164,125	293,021	80,936
Total loans at end of period	$1,628,127	$1,464,002	$1,170,981

(1) Amount reported in fiscal 2018 includes the Company's acquisition of loans from the Marshfield acquisition recorded at a $68.3 million fair value. Amount reported in fiscal 2017 includes the Company's acquisition of loans from the Capaha acquisition recorded at a $152.2 million fair value.

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 $266.8 million at June 30, 2018. See Note 14 of Notes to the Consolidated Financial Statements contained in Item 8.

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, 2018.

	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	$ 84	26	$ 4,089	29	$ 4,173
Commercial real estate	2	290	8	1,484	10	1,774
Construction	---	---	---	---	---	---
Consumer	6	33	20	146	26	179
Commercial Business	5	90	8	707	13	797
Totals	16	$ 497	62	$ 6,426	78	$ 6,923

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.

The increase in nonperforming assets in fiscal 2018 was attributed primarily to the increase in nonaccrual loans, which, in turn, was primarily attributable to three relationships: a $1.7 million relationship secured by commercial collateral, commercial real estate, and agricultural real estate which deteriorated during fiscal 2018; a $1.0 million multi-family relationship which has been considered a classified asset for approximately four years; and a $2.7 million relationship secured by residential rental properties which has been considered a classified asset for approximately one year.

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,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Nonaccruing loans:					
Residential real estate	$5,913	$1,263	$2,676	$2,202	$444
Construction	25	35	388	133	---
Commercial real estate	1,962	960	1,797	1,271	673
Consumer	209	158	160	88	58
Commercial business	1,063	409	603	63	91
Total	9,172	2,825	5,624	3,757	1,266
Loans 90 days past due accruing interest:					
Residential real estate	---	59	---	---	106
Construction	---	---	---	---	---
Commercial real estate	---	---	---	---	18
Consumer	---	13	7	34	6
Commercial business	---	329	31	11	---
Total	---	401	38	45	130
Total nonperforming loans	9,172	3,226	5,662	3,802	1,396
Nonperforming investments	---	---	---	---	---
Foreclosed assets held for sale:					
Real estate owned	3,874	3,014	3,305	4,440	2,912
Other nonperforming assets	50	86	61	64	65
Total nonperforming assets	$13,096	$6,326	$9,028	$8,306	$4,373
Total nonperforming loans to net loans	0.59 %	0.23 %	0.50 %	0.36 %	0.17 %
Total nonperforming loans to total assets	0.49 %	0.19 %	0.40 %	0.29 %	0.14 %
Total nonperforming assets to total assets	0.69 %	0.37 %	0.64 %	0.64 %	0.43 %

At June 30, 2018, troubled debt restructurings (TDRs) totaled $13.0 million, of which $1.3 million was considered nonperforming and was included in the nonaccrual loan total above. The remaining $11.7 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, 2017, TDRs totaled $11.2 million, of which $338,000 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, 2018, 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.

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, 2018, the Company's balance of real estate owned totaled $3.9 million and included $786,000 in residential properties and $3.1 million in 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, 2018, classified assets totaled $18.2 million, or 0.96% of total assets as compared to $17.5 million, or 1.02% of total assets at June 30, 2017. Of the amount classified as of June 30, 2018, $16.3 million was considered substandard, and $1.8 million was considered doubtful. Included in classified assets at June 30, 2018, were various loans totaling $14.3 million (see Note 3 of Notes to the Consolidated Financial Statements contained in Item 8 for more information on classified loans) and foreclosed real estate and repossessed assets totaling $3.9 million. Classified loans are so designated due to concerns regarding the borrower's ability to generate sufficient cash flows to service the debt. Classified loans totaling $6.8 million had been placed on nonaccrual status at June 30, 2018, of which $5.3 million were more than 30 days delinquent. Of the remaining $7.5 million of classified loans, $70,000 were more than 30 days delinquent.

Other Loans of Concern. In addition to the classified assets above, there was also an aggregate of $10.2 million in loans, with respect to which management has concerns 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, 2018, but were identified as having elevated risk 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 collectability 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 provisioning 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, 2018, of $18.2 million, which represented 139% of nonperforming assets as compared to an allowance of $15.5 million, which represented 246% of nonperforming assets at June 30, 2017.

At June 30, 2018, the Bank also had an allowance for credit losses on off-balance sheet credit exposures of $1.2 million, as compared to $1.1 million at June 30, 2017. This amount is maintained as a separate liability account to cover estimated potential credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees.

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

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

	Year Ended June 30,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Allowance at beginning of period	$15,538	$13,791	$12,298	$9,259	$8,386
Recoveries					
Residential real estate	2	10	5	11	16
Construction real estate	---	1	---	---	---
Commercial real estate	2	20	46	47	1
Commercial business	8	31	15	33	17
Consumer	23	8	8	4	95
Total recoveries	35	70	74	95	129
Charge offs:					
Residential real estate	190	211	167	54	169
Construction real estate	9	31	---	---	---
Commercial real estate	56	19	97	9	96
Commercial business	22	337	725	128	59
Consumer	129	65	86	50	578
Total charge offs	406	663	1,075	241	902
Net charge offs	(371)	(593)	(1,001)	(146)	(773)
Provision for loan losses	3,047	2,340	2,494	3,185	1,646
Balance at end of period	$18,214	$15,538	$13,791	$12,298	$9,259
Ratio of allowance to total loans outstanding at the end of the period	1.15 %	1.10 %	1.20 %	1.15 %	1.14 %
Ratio of net charge offs to average loans outstanding during the period	0.02 %	0.05 %	0.09 %	0.01 %	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,									
	2018		2017		2016		2015		2014	
	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	$3,226	27.70 %	$3,230	30.22 %	$3,247	33.56 %	$2,819	34.63 %	$2,462	36.64 %
Construction	1,097	6.92	964	7.30	1,091	6.61	899	6.35	355	4.91
Commercial real estate	8,793	43.28	7,068	41.25	5,711	38.60	4,956	37.13	4,143	37.19
Consumer	902	4.82	757	4.35	738	3.98	758	4.29	519	4.25
Commercial business	4,196	17.28	3,519	16.88	3,004	17.25	2,866	17.60	1,780	17.01
Total allowance for loan losses	$18,214	100.00%	$15,538	100.00%	$13,791	100.00%	$12,298	100.00%	$9,259	100.00%

20

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/Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer 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, net of tax, recorded as a separate component of stockholders' equity. At June 30, 2018, AFS securities totaled $146.3 million (excluding FHLB and Federal Reserve Bank 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.

As of June 30, 2018, 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, 2018, the Company's debt and other securities portfolio totaled $56.2 million, or 2.98% of total assets as compared to $66.1 million, or 3.87% of total assets at June 30, 2017. During fiscal 2018, the Bank had $10.2 million in maturities and $7.3 million in securities purchases. Of the securities that matured, $7.1 million was called for early redemption. At June 30, 2018, the investment securities portfolio included $9.4 million in U.S. government and government agency bonds, of which $6.4 million is subject to early redemption at the option of the issuer, and $41.6 million in municipal bonds, of which $35.2 million is subject to early redemption at the option of the issuer. The remaining portfolio consists of $5.2 million in other securities (including pooled trust preferred securities with an estimated fair value of $795,000). Based on projected maturities, the weighted average life of the debt and other securities portfolio at June 30, 2018, was 44 months. Membership stock held in the FHLB of Des Moines, totaling $5.7 million, FHLB of Chicago totaling $215,000, and the Federal Reserve Bank of St. Louis, totaling $3.6 million, along with equity stock of $825,000 in four correspondent (banker's) banks, was not included in the above totals.

At June 30, 2018, the Company owned two pooled trust preferred securities with an estimated fair value of $795,000 and a book value of $971,000. The June 30, 2018, cash flow analysis for these two 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. See Note 2 of Notes to the Consolidated Financial Statements contained in Item 8.

Mortgage-Backed Securities. At June 30, 2018, mortgage-backed securities ("MBS") totaled $90.2 million, or 4.8%, of total assets, as compared to $78.3 million, or 4.6%, of total assets at June 30, 2017. During fiscal 2018, the Bank had maturities and prepayments of $14.7 million and $36.7 million in purchases of MBS. At June 30, 2018, the MBS portfolio included $41.2 million in fixed-rate MBS, and $49.0 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, 2018, was 57 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual prepayment rates.

21

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, 2018 Fair Value	Percent of Portfolio	2017 Fair Value	Percent of Portfolio	2016 Fair Value	Percent of Portfolio
			(Dollars in thousands)			
U.S. government and government agencies	$9,385	14.13 %	$10,438	14.34 %	$6,517	9.75 %
State and political subdivisions	41,612	62.65	49,978	68.66	46,185	69.12
Other securities	5,152	7.76	5,725	7.86	5,291	7.92
FHLB/FNBB/MIB membership stock	6,701	10.09	4,295	5.90	6,484	9.70
Federal Reserve Bank membership stock	3,566	5.37	2,357	3.24	2,343	3.51
Total	$66,416	100.00 %	$72,793	100.00 %	$66,820	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, 2018.

	Available for Sale Securities June 30, 2018 Amortized Cost	Fair Value	Tax-Equiv. Wtd.-Avg. Yield
	(Dollars in thousands)		
U.S. government and government agency securities:			
Due within 1 year	$2,247	$2,243	1.45 %
Due after 1 year but within 5 years	7,266	7,142	1.61
Due after 5 years but within 10 years	---	---	---
Due over 10 years	---	---	---
Total	9,513	9,385	1.57
State and political subdivisions:			
Due within 1 year	1,293	1,293	2.04 %
Due after 1 year but within 5 years	8,953	8,939	2.84
Due after 5 years but within 10 years	15,429	15,286	3.56
Due over 10 years	16,187	16,094	3.30
Total	41,862	41,612	3.25
Other securities:			
Due within 1 year	---	---	--- %
Due after 1 year but within 5 years	---	---	---
Due after 5 years but within 10 years	3,992	4,043	5.44
Due over 10 years	1,292	1,109	3.03
Total	5,284	5,152	4.85

No stated maturity:				
FHLB/FNBB/MIB membership stock	6,701	6,701	3.24	%
Federal Reserve Bank membership stock	3,566	3,566	6.56	
Total	10,267	10,267	4.39	
Total debt and other securities	$66,926	$66,416	3.32	%

The following table sets forth certain information at June 30, 2018 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, 2018 (Dollars in thousands)
Amounts due:	
Within 1 year	$ ---
After 1 year through 3 years	56
After 3 years through 5 years	---
After 5 years	92,652
Total	$ 92,708

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, 2018, which have fixed, floating, or adjustable interest rates.

	At June 30, 2018 (Dollars in thousands)
Interest rate terms on amounts due after 1 year:	
Fixed	$ 92,708
Adjustable	---
Total	$ 92,708

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

	At June 30,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
FHLMC certificates	$16,598	$16,113	$21,380	$21,489	$23,298	$23,799
GNMA certificates	38	38	1,437	1,449	1,814	1,856
FNMA certificates	25,800	25,062	28,457	28,628	28,292	28,931
Collateralized mortgage obligations issued by government agencies	50,272	48,963	26,814	26,709	16,489	16,645
Total	$92,708	$90,176	$78,088	$78,275	$69,893	$71,231

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, Arkansas, or Illinois. 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 digital and social media, 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 money market deposit accounts, passbook savings accounts, and 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, 2018:

As of June 30, 2018

Weighted Average Interest Rate	Term	Category	Minimum Amount	Balance (Dollars in thousands)	Percentage of Total Deposits
0.00%	None	Non-interest Bearing	$ 100	$ 203,517	12.89 %
0.82	None	NOW Accounts	100	569,005	36.02
0.51	None	Savings Accounts	100	157,540	9.97
0.70	None	Money Market Deposit Accounts	1,000	116,389	7.37
		<u>Certificates of Deposit</u>			
1.24	6 months or less	Fixed Rate/Term	1,000	43,039	2.72
0.80	6 months or less	IRA Fixed Rate/Term	1,000	1,827	0.12
1.22	7-12 months	Fixed Rate/Term	1,000	71,720	4.54
0.95	7-12 months	IRA Fixed Rate/Term	1,000	12,489	0.79
1.53	13-24 months	Fixed Rate/Term	1,000	228,023	14.43
1.36	13-24 months	IRA Fixed Rate/Term	1,000	22,649	1.42
1.37	25-36 months	Fixed Rate/Term	1,000	34,279	2.17
1.31	25-36 months	IRA Fixed Rate/Term	1,000	5,026	0.32
1.82	48 months and more	Fixed Rate/Term	1,000	93,684	5.93
1.81	48 months and more		1,000	20,715	1.31

IRA Fixed Rate/Term		
	$ 1,579,902	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, 2018. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are generally negotiable.

Maturity Period	Amount (Dollars in thousands)
Three months or less	$ 55,923
Over three through six months	49,035
Over six through twelve months	80,557
Over 12 months	144,784
Total	$ 330,299

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,		
	2018	2017	2016
	(Dollars in thousands)		
0.00 - 0.99%	$77,958	$200,868	$205,387
1.00 - 1.99%	356,172	296,964	162,180
2.00 - 2.99%	98,842	36,228	28,135
3.00 - 3.99%	479	---	20
4.00 - 4.99%	---	---	---
5.00 - 5.99%	---	3,000	3,001
Total	$533,451	$537,060	$398,723

The following table sets forth the amount and maturities of all time deposits at June 30, 2018.

	Amount Due						Percent of Total	
	Less Than One Year	1-2 Years	2-3 Years	3-4 Years	After 4 Years	Total	Certificate Accounts	
	(Dollars in thousands)							
0.00 – 0.99%	$75,171	$2,109	$378	$300	$---	$77,958	14.61	%
1.00 – 1.99%	220,497	86,395	26,303	14,967	8,010	356,172	66.77	
2.00 - 2.99%	15,772	53,893	7,716	13,263	8,198	98,842	18.53	
3.00 - 3.99%	---	---	---	---	479	479	0.09	
4.00 - 4.99%	---	---	---	---	---	---	---	
5.00 - 5.99%	---	---	---	---	---	---	---	
Total	$311,440	$142,397	$34,397	$28,530	$16,687	$533,451	100.00	%

Deposit Flow

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

	At June 30, 2018			2017			2016		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
	(Dollars in thousands)								
Noninterest bearing	$203,517	12.88 %	$17,314	$186,203	12.79 %	$54,207	$131,996	11.78 %	$14,525
NOW checking	569,005	36.02	89,517	479,488	32.94	83,383	396,105	35.34	60,008
Savings accounts	157,540	9.97	10,293	147,247	10.12	31,533	115,714	10.33	(16,170)
Money market deposit	116,389	7.37	10,790	105,599	7.25	27,444	78,155	6.97	10,403
Fixed-rate certificates which mature[1]:									
Within one year	311,440	19.71	(15,198)	326,638	22.44	80,734	245,904	21.94	618
Within three years	176,794	11.19	13,984	162,810	11.19	59,011	103,799	9.26	(11,184)
After three years	45,217	2.86	(2,395)	47,612	3.27	(1,408)	49,020	4.38	7,251
Variable-rate certificates which mature:									
Within one year	---	---	---	---	---	---	---	---	---
Within three years	---	---	---	---	---	---	---	---	---
Total	$1,579,902	100.00%	$124,305	$1,455,597	100.00%	$334,904	$1,120,693	100.00%	$65,451

[1] At June 30, 2018, 2017 and 2016, certificates in excess of $100,000 totaled $330.3 million, $342.5 million and $234.5 million, respectively.

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

	At June 30,		
	2018	2017	2016
	(Dollars in thousands)		
Beginning Balance	$1,455,597	$1,120,693	$1,055,242
Net increase before interest credited	111,480	326,432	58,044
Interest credited	12,825	8,472	7,407
Net increase in deposits	124,305	334,904	65,451
Ending balance	$1,579,902	$1,455,597	$1,120,693

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, 2018, the Bank had $76.7 million in FHLB advances, of which $7.0 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years, $2.7 million in fixed-rate long term advances, $400,000 of fixed rate amortizing advances, and $66.6 million in overnight borrowings. In order for the Bank to borrow from the FHLB, it has pledged $706.2 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 $167.3 million) and has purchased $5.7 million in FHLB stock. At June 30, 2018, the Bank had additional borrowing capacity on its pledged residential and commercial real estate loans from the FHLB of $267.0 million, as compared to $251.8 million at June 30, 2017.

Additionally, the Bank is approved to borrow from the Federal Reserve Bank'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, 2018, the Bank was approved to borrow up to $163.2 million through the discount window, but no balance was outstanding.

Also classified as borrowings are the Bank's securities sold under agreements to repurchase ("repurchase agreements"). These agreements are typically entered into with local public units or corporations. Generally, the Bank pays interest on these agreements at a rate similar to those available on repurchase agreements with wholesale funding sources. The Bank views repurchase agreements with local entities as a stable funding source. At June 30, 2018, the Bank had outstanding $3.3 million in repurchase agreements, as compared to $10.2 million at June 30, 2017.

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, 2018, the current rate was 5.08%. 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, the Company assumed $3.1 million in floating rate junior subordinated debt securities. The securities had been issued in June 2005 by Ozarks Legacy in connection with the sale of trust preferred securities, bear interest at a floating rate based on LIBOR, and mature in 2035. At June 30, 2018, the carrying value was $2.6 million, and bore interest at a current coupon rate of 4.79% and an effective rate of 6.67%.

In the Peoples Acquisition, the Company assumed $6.5 million in floating rate junior subordinated debt securities. The debt securities had been issued in 2005 by PBC in connection with the sale of trust preferred securities, bear interest at a floating rate based on LIBOR, are now redeemable at par, and mature in 2035. At June 30, 2018, the carrying value was $5.1 million and bore interest at a current coupon rate of 4.14% and an effective rate of 6.66%.

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,		
	2018	2017	2016
		(Dollars in thousands)	
Year end balances			
Short-term FHLB advances	$66,550	$20,000	$69,750
Securities sold under agreements to repurchase	3,267	10,212	27,085
	$69,817	$30,212	$96,835
Weighted average rate at year end	1.98 %	1.02 %	0.45 %

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

	Year Ended June 30,		
	2018	2017	2016
	(Dollars in thousands)		
FHLB advances			
Daily average balance	$56,593	$96,065	$65,273
Weighted average interest rate	1.84 %	1.18 %	1.95 %
Maximum outstanding at any month end	$88,538	$140,361	$100,993
Securities sold under agreements to repurchase			
Daily average balance	$5,373	$22,198	$27,387
Weighted average interest rate	0.70 %	0.43 %	0.44 %
Maximum outstanding at any month end	$9,902	$28,825	$31,575
Subordinated Debt			
Daily average balance	$14,897	$14,800	$14,705
Weighted average interest rate	5.15 %	4.37 %	3.86 %
Maximum outstanding at month end	$14,945	$14,848	$14,753

Subsidiary Activities

The Bank has three subsidiaries, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2018, and is currently inactive, and SB Corning, LLC and SB Real Estate Investments, LLC both active subsidiaries. SB Corning, LLC represents a $1.4 million investment in a limited partnership formed for the purpose of generating low income housing tax credits. SB Real Estate Investments, LLC is a wholly owned subsidiary of the Bank formed to hold Southern Bank Real Estate Investments, LLC. Southern Bank Real Estate Investments, LLC is a REIT which is majority-owned by the investment subsidiary, but has other preferred shareholders in order to meet the requirements to be a REIT. At June 30, 2018, SB Real Estate Investments, LLC held assets of $608.3 million, while Southern Bank Real Estate Investments, LLC held assets of $607.6 million.

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.

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.

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 FRB, 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 Federal 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 shareholders 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 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.

2018 Regulatory Reform

In May 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Act"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as the Bank.

The Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the "community bank leverage ratio" will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be "well capitalized" under the prompt corrective action rules. The Act also expands the category of holding companies that may rely on the "Small Bank Holding Company and Savings and Loan Holding Company Policy Statement" (the "HC Policy Statement") by raising the maximum amount of assets a qualifying holding company may have from $1 billion to $3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the Act will ultimately be applied to us or what specific impact the Act and the yet-to-be-written implementing rules and regulations will have on community banks.

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 deposit 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, and in other circumstances. The FRB as the primary federal regulator of the Company and the Bank has 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. 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 reserves at specified levels against their transaction accounts (checking, NOW and Super NOW checking accounts). At June 30, 2018, 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 Federal Reserve Bank.
Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 11 regional FHLBs that provide 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, 2018, the Bank had $5.7 million in FHLB stock, which was in compliance with this requirement. The Bank received $147,000 and $151,000 in dividends from the FHLB of Des Moines for the years ended June 30, 2018 and 2017, 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 ("DIF") 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 DIF. The FDIC also has the authority to initiate enforcement actions against a member bank of the FRB after giving the FRB an opportunity to take such action.
The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio (the ratio of the net worth of the DIF to aggregate insured deposits). 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 FDIC is required to offset the effect of the increase in the reserve ratio 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%. 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.
Implementing the Dodd-Frank Act requirement that the FDIC's deposit insurance assessments be based on assets instead of deposits, the FDIC has issued rules specifying that specify that the assessment base for a bank is equal to its total average consolidated assets less average tangible equity. Effective for the quarter beginning July 1, 2017, the assessment rates for an institution with assets of less than $10 billion will range from 3 to 30 basis points, based on the institution's weighted average CAMELS component ratings and certain financial ratios. These rates are subject to downward adjustment (not below 1.5 basis points) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment based on its holdings of unsecured debt issued by other insured institutions. Assessment rates are expected to decrease in the future as the reserve ratio increases in specified increments. To implement the offset requirement, FDIC regulations require that institutions with assets of $10 billion or more pay a surcharge during a temporary period, and smaller institutions will receive certain credits when the reserve ratio reaches 1.38%. No institution may pay a dividend if it is in default on its federal deposit insurance assessment.

A significant increase in insurance assessment rates 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, 2018, was 0.32 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. In connection with the capital rules discussed under "Capital Rules" below, an institution is 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. An institution is deemed to be "adequately capitalized" if it has (i) a total risk-based capital ratio of 8.0% or more, (ii) a common equity Tier 1 risk-based capital ratio of 4.5% or more, (iii) a Tier 1 risk-based capital ratio of 6.0% or more, and (iv) a leverage ratio of 4.0% or more and does not meet the definition of "well capitalized;" "undercapitalized" if it has (i) a total risk-based capital ratio that is less than 8.0%, (ii) a common equity Tier 1 risk-based capital ratio that is less than 4.5%, (iii) a Tier 1 risk-based capital ratio that is less than 6.0%, or (iv) a leverage ratio that is less than 4.0%; "significantly undercapitalized" if it has (i) a total risk-based capital ratio that is less than 6.0%, (ii) a common equity Tier 1 risk-based capital ratio that is less than 3.0%, (iii) a Tier 1 risk-based capital ratio that is less than 4.0%, or (iv) a leverage ratio that is less than 3.0%; and "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

A federal banking agency may 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 it determines, after notice and opportunity for hearing, that 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, or the parent bank holding company of such an institution, to take one or more of the following actions: (i) sell enough 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" exemption 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) employ qualified senior executive officers; (xi) cease acceptance of deposits from correspondent depository institutions; (xii) divest the institution or certain non-depository holding company subsidiaries which pose a danger to the institution, or divest certain subsidiaries of the institution; (xiii) obtain prior FRB approval for payment of dividends by the parent bank holding company; and (xiv) any other action which the agency determines would better carry out the purposes of the prompt corrective action provision and request the institution to take.

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, 2018, 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 federal banking agencies have 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: total loans for construction, land development, and other land represent 100% or more of the bank's total capital; or total commercial real estate loans (as defined in the guidance) greater than 300% of the Bank's total capital and an increase in the bank's commercial real estate portfolio of 50% or more during the prior 36 months.
Capital Rules. The regulatory capital ratios of the federal banking agencies 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. The capital regulations became effective January 1, 2015 (with some provisions transitioned into full effectiveness over two to four years). The new requirements created a new ratio for common equity Tier 1 ("CET1") capital, increased the leverage and Tier 1 capital ratios, changed the risk-weights of certain assets for purposes of the risk-based capital ratios, created an additional capital conservation buffer over the minimum capital ratios, and changed what qualifies as regulatory capital.
Under the new requirements, the minimum capital ratios are: 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%. The new requirements apply to the Bank and the Company.

33

Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock are 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. Tier 1 capital generally includes 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 had the one-time option and elected in the first quarter of calendar year 2015 to permanently opt-out of the inclusion of accumulated other comprehensive income in its capital calculations, to reduce the impact of market volatility on its regulatory capital levels. 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.
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 must maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above each of the required minimum risk-based capital levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying certain discretionary bonuses. The capital conservation buffer requirement is phased in beginning in January 2016 at 0.625% of risk-weighted assets and increases each year by that amount until fully implemented in January 2019. If the Company or the Bank fails to meet the buffer requirement, it will be subject to restrictions on the payment of dividends or discretionary bonuses and repurchases of stock.
As of June 30, 2018, Southern Bank and the Company met all these new requirements, including the full 2.5% capital conservation buffer, as if phased-in requirements had been fully in effect on that date.
Activities and Investments of Insured State-Chartered Banks. Subject to certain regulatory exceptions, the FDIA and 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 Deposit Insurance Fund and that the bank is in compliance with applicable regulatory capital requirements.
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.
Affiliate Transactions. The Company and the Bank are separate and distinct legal entities. Various legal limitations restrict the Bank from lending to or otherwise engaging in transactions with the Company (or any other affiliate), generally limiting such transactions with an 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 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. Dividends can be restricted if the capital conservation buffer is not maintained as described under "Capital Rules" above. 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.
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 are to 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 activities which are permitted, 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.

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.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35 percent to 21 percent, as well as other changes. As a result of enactment of the legislation, the Company incurred additional one-time income tax expense of $998,050 during the second quarter of fiscal 2018, primarily related to the remeasurement of certain deferred tax assets and liabilities.

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.

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 exclude 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 .007%. 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%.

Illinois Taxation

General. Due to its loan activity and the acquisitions of Illinois banks in recent periods, the Bank is subject to an Illinois income tax. The tax is imposed on the Bank's apportioned taxable income at a rate of 9.5%.

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, 2018, the Company had 374 full-time employees and 41 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, joined our Company in 1998 as Chief Financial Officer, and was appointed President and CEO in 1999. He has over 28 years of experience in the banking industry, including service from 1993 to 1998 as chief financial officer of Sho-Me Financial Corp (Mount Vernon, Missouri), prior to the sale of that company to Union Planters Corporation. Mr. Steffens also served from 1989 to 1993 as an examiner with the Office of Thrift Supervision. Mr. Steffens holds a Bachelor of Science Degree in Business Administration-Accounting and Finance from the University of Central Missouri, Warrensburg, Missouri.

Matthew T. Funke, the Company's Chief Financial Officer, joined our Company in 2003. He has more than 19 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. (Jefferson City, Missouri), where he advanced to the role of internal audit manager, and as a fiscal analyst with the Missouri General Assembly. Mr. Funke holds a Bachelor of Science Degree in Accounting from Missouri State University, Springfield, Missouri, and is a graduate of the Southwest Graduate School of Banking at SMU, Dallas, Texas.

Kimberly A. Capps, the Company's Chief Operations Officer, joined our Company in 1994. She has over 25 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. She holds a Bachelor of Science Degree in Business Administration-Accounting from Southeast Missouri State University, Cape Girardeau, Missouri.

Lora L. Daves, the Company's Chief Risk Officer, has worked for us since 2006. Ms. Daves is responsible for the oversight of the Company's internal audit, loan review, and compliance functions. Ms. Daves also oversees the Company's quarterly stress testing of its commercial real estate portfolio and the credit analysis of proposed new credits. Ms. Daves served as our Chief Credit Officer from 2006 through 2016. Ms. Daves has over 29 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 (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. Ms. Daves holds a Bachelor of Science Degree in Business Administration-Accounting from Southeast Missouri State University, Cape Girardeau, Missouri.

Justin G. Cox is our Regional President for the Bank's west region, in which role he is responsible for loan production activity in the region, and also provides joint oversight of the deposit-taking operation in the region. Mr. Cox joined our Company in 2010 as a lending officer, as an integral part of the team which established our presence in Springfield, Missouri, through the opening of a loan production office in that market. Mr. Cox has more than 15 years banking experience. He previously worked for Metropolitan National Bank (Springfield, Missouri), and advanced to the role of Vice President of Lending for that institution. Mr. Cox holds a Bachelor of Science Degree in Business

Administration-Marketing & Management from Southwest Baptist University, Bolivar, Missouri.

Mark E. Hecker, the Company's Chief Credit Officer, has worked for us since January 23, 2017. Mr. Hecker is responsible for administration of the Company's credit portfolio, including the approval process for proposed new credits and monitoring of the portfolio's credit quality. Mr. Hecker has over 28 years of banking experience, having most recently served twelve years with BankLiberty (Liberty, Missouri) as its Chief Lending Officer. Prior to that, Mr. Hecker served as a commercial banker for Midland Bank (Lee's Summit, Missouri) and its successor organization, Commercial Federal Bank (Omaha, Nebraska) for eight years. Mr. Hecker was employed as an examiner with the FDIC for more than six years and is a Commissioned Bank Examiner. Mr. Hecker holds a Bachelor of Science Degree in Business Administration-Accounting from the University of Central Missouri, Warrensburg, Missouri.

Rick A. Windes, the Company's Chief Lending Officer, joined our Company May 7, 2018. Mr. Windes is responsible for the Company's loan production. Mr. Windes has 25 years' experience in commercial lending and lending management. Most recently, he served as a regional president in Springfield, Missouri, for Bear State Bank (Little Rock, Arkansas), prior to its merger with Arvest Bank. Previously, he was the senior lender for Metropolitan National Bank (Springfield, Missouri) prior to its acquisition by Bear State Bank. Mr. Windes holds a Bachelor of Science Degree in Business Administration from Truman State University, Kirksville, Missouri, and is a graduate of the Graduate School of Banking at Colorado, Boulder, Colorado.

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., 2991 Oak Grove Road, 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 acquisition activities.

The success of our acquisition activities 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 acquisitions may not be realized fully, if at all, or may take longer to realize than expected.

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, 2018 and June 30, 2017, our nonperforming assets were $13.1 million and $6.3 million, respectively, or 0.69% and 0.37% of total assets, respectively. Our nonperforming assets adversely affect our net income in various ways:

- We do not accrue 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 an economic slowdown in southern Missouri or northern 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. The housing and real estate sectors have recovered since the 2008 economic slowdown and are currently expanding. However, future deterioration in economic conditions, particularly within our primary market area in southern Missouri and northern 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 southern Missouri and northern 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 multi-family 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 $112.7 million, or 7.21% of loans, net, at June 30, 2018, 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, leasing, or operation 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, 2018, 60.6% 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 ten years, we have increased this type of lending from 47.5% of our portfolio at June 30, 2008, in order to improve the yield on our assets. At June 30, 2018, our loan portfolio included $704.6 million of commercial real estate loans and $281.3 million of commercial business loans compared to $603.9 million and $247.2 million, respectively, at June 30, 2017. 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 or 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 provision for loan losses would adversely affect our operating results and financial condition. Any delinquent payments or the failure to repay these loans would hurt our operating results and financial condition.

Included in the commercial real estate loans described above are agricultural real estate loans totaling $160.3 million, or 10.3% of our loan portfolio, net, at June 30, 2018. 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 agricultural activity in our market areas is livestock, dairy, poultry, rice, timber, soybeans, wheat, melons, corn, and cotton. Accordingly, adverse circumstances affecting these activities could have an adverse effect on our agricultural real estate loan portfolio. Our agricultural real estate lending has grown significantly since June 30, 2008, when these loans totaled $14.9 million, or 4.2% of our loan portfolio.

Included in the commercial business loans described above are agricultural production and equipment loans. At June 30, 2018, these loans totaled $81.5 million, or 5.2%, 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. The same risk applies to 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, 2008, when such loans totaled $22.7 million, or 6.4% of our loan portfolio.

Continued growth 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. Commercial real estate and commercial business loans naturally create portfolio "churn" as loans are originated and repaid. As a result, our portfolio consists of a mix of seasoned and unseasoned loans. We believe that our underwriting practices are sound and based on industry standards and best practices. However, a significant portion of our loan portfolio is relatively new, therefore, the current level of delinquencies and defaults may not be representative of the level that will prevail as 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.

As we approach thresholds defined in interagency guidance on commercial real estate concentrations, we may incur additional expense or slow the growth of certain categories of commercial real estate lending.

The federal banking agencies have issued guidance on sound risk management practices for concentrations in commercial real estate lending (see "REGULATION"). For the purposes of this guidance, "commercial real estate" includes, among other types, multi-family residential loans and non-owner occupied nonresidential loans, two categories which have been a source of loan growth for the Company. 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: total loans for construction land development and other land representing 100% or more of the bank's total capital; or total commercial real estate loans (as defined in the guidance) that exceed 300% of the bank's total capital and the bank's commercial real estate portfolio has increased by 50% or more during the prior 36 months.

During fiscal 2017, the Bank exceeded the 300% threshold for non-owner occupied commercial real estate loans as a percentage of total regulatory capital for the first time at September 30, 2016, and remained above the threshold for most of fiscal 2017, before declining to 271% at June 30, 2017. The Bank's highest level during fiscal 2017 was 303% at December 31, 2016. The lower level at June 30, 2017, was the result of additional capital invested in the Bank by the Company following the June at-the-market common stock offering completed by the Company, and from additional capital resulting from the acquisition and merger of Tammcorp, Inc., and its bank subsidiary, Capaha Bank, with and into Southern Missouri Bancorp, Inc., while Capaha Bank held a lower percentage of its loans in non-owner occupied commercial real estate loans. During fiscal 2018, the Bank remained below the 300% threshold throughout the fiscal year, and reported total commercial real estate loans (as defined in the guidance) of 241% of the Bank's total capital at June 30, 2018.

During fiscal 2017, the Company's non-owner occupied commercial real estate loans peaked at 293% of total regulatory capital at December 31, 2016, before declining to 256% at June 30, 2017, with this decline also attributable to additional capital provided by the at-the-market common offering completed by the Company in June, as well as the Tammcorp, Inc., acquisition. During fiscal 2018, the Company also remained below the 300% threshold throughout the fiscal year, and reported total commercial real estate loans (as defined in the guidance) of 233% of the Company's total capital at June 30, 2018.

The Bank and Company may again see its non-owner occupied commercial real estate lending grow as a percentage of total regulatory capital, or it may slow the growth of this type of lending activity. Should we continue to grow this category of our loan portfolio, we may incur additional expense to meet the heightened supervisory expectations related to this lending activity. If we slow the growth of commercial real estate loans generally, or particular concentrations of borrowers or categories of properties within that definition, we may be negatively impacted in terms of our asset growth, net interest margin and earnings, leverage, or other targets.

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, or at all, 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 three acquisitions within the past five years and opened additional banking offices in the past few years that enhanced our rate of growth. We do not necessarily expect to be able to maintain our past rate of growth, and may not be able 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 two 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, 2018, we determined that none of our goodwill or other intangible assets was 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, 2018, our net deferred tax asset was $4.4 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, 2018. 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 otherwise 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 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.

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.

We face significant operational risks because the financial services business involves a high volume of transactions and increased reliance on technology, including risk of loss related to cyber-security breaches.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions and to collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, systems failures or interruptions, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, including as a result of cyber-attacks or information security breaches, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected.

In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, or a breach of our security systems, including if confidential or proprietary information were to be mishandled, misused or lost, we could suffer financial loss, face regulatory action, civil litigation and/or suffer damage to our reputation.

Our information technology systems may be subject to failure, interruption or security breaches.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions and security breaches, including privacy breaches and cyber attacks, but such events may still occur or may not be adequately addressed if they do occur. There have been increasing efforts by third parties to breach data security at financial institutions. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data. Although we take protective measures, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have an impact on information security. Because the techniques used to cause security breaches change frequently, we may be unable to proactively address these techniques or to implement adequate preventative measures.

In addition, we outsource some of our data processing requirements to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with those service providers, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

47

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 available assets of Southern Missouri Bancorp, Inc., 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 bank, and derives substantially all of its revenue in the form of dividends from the subsidiary. Accordingly, the Company is and will be dependent upon dividends from its subsidiary bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on its common and preferred stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the subsidiary bank is unable to pay dividends to the Company, the Company may not