SOUTHERN MISSOURI BANCORP INC
Form 10-K
September 13, 2016
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, 2016 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.___

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	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 $144.1 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, 2016, there were issued and outstanding 7,436,866 shares of the Registrant's common stock.
DOCUMENTS INCORPORATED BY REFERENCE
Part III of Form 10-K - Portions of the Proxy Statement for the 2016 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, 2016, the Company had total assets of $1.4 billion, total deposits of $1.1 billion and stockholders' equity of $126.0 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.

Acquisitions

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 (the “Peoples Acquisition”). Peoples was merged into the Company’s bank subsidiary, Southern Bank, in early December, 2014, in connection with the conversion of Peoples’ data system. The Company acquired Peoples 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. 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 Company and Peoples. Total goodwill was assigned to the acquisition of the bank holding company.

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 $114.6 million and deposits recorded at a fair value of $130.8 million, at December 17, 2010.

Capital Raising Transactions

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

On July 21, 2011, as part of the 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.

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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;
- 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, 32 additional full service offices, and three limited service 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 (2), and Rogersville, Missouri, and Jonesboro (2), Paragould, Brookland, Batesville, Searcy, Bald Knob (2) and Bradford, Arkansas.

The Bank’s primary market area includes eight southeast and south-central Missouri counties where the Bank operates 15 facilities, with one facility located in a municipality that straddles a county line and is mostly situated in a ninth county. Those nine counties (Butler, Carter, Dunklin, Howell, New Madrid, Oregon, Ripley, Scott, and Stoddard) have a population of roughly 232,000 persons. In northeast and north-central Arkansas, the Bank’s nine facilities are located in four counties (Craighead, Greene, Independence, and White) with a population of roughly 265,000 persons – this area includes the Jonesboro, Arkansas, Metropolitan Statistical Area, with a population of 124,000. In southwest Missouri, our eleven facilities are located in five counties with a population of approximately 494,000, including the Springfield, Missouri, Metropolitan Statistical Area, with a population of roughly 456,000. The Bank 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 southeast Missouri and northeast and north central Arkansas markets are primarily rural in nature with economies supported by manufacturing activity, agriculture (livestock, rice, timber, soybeans, wheat, melons, corn, and cotton), healthcare, and education. Large employers include hospitals, manufacturers, school districts, and colleges. In the southwest Missouri market, 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, 2016, the Bank was one of 29 bank or saving association groups located in its southeast and south-central Missouri market area competing for approximately $4.3 billion in deposits at FDIC-insured institutions, one of 21 bank or saving association groups located in its northeast and north-central Arkansas market area (five of these overlap with the southeast and south-central Missouri market area) competing for $5.3 billion in deposits, and one of 39 bank or savings association groups located in its southwest Missouri markets (twelve of these overlap with the Arkansas or other Missouri market areas) competing for $9.3 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 origination of loans secured by mortgages on one- to four-family and multifamily residential real estate, commercial and agricultural real estate, construction loans on residential and commercial properties, commercial and agricultural business loans and consumer loans. The Bank has also occasionally purchased loan participation interests originated by other lenders and secured by properties generally located in the States of Missouri or Arkansas.

Supervision of the loan portfolio is the responsibility of our Chief Lending Officer. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the next level of authority, which may include one of two Regional Loan Committees or our Agricultural

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Loan Committee. The Regional Loan Committees each consist of several senior lending officers of the Bank and one non-employee director, and is responsible for approving lending relationships up to $1.5 million. For the Regional Loan Committee to approve a proposed loan, approval of the non-employee director is required. The Agricultural Loan Committee consists of several senior lending officers of the Bank and is responsible for approving agricultural lending relationships up to $2.0 million. Loan requests above these approval authorities are presented to the Senior Loan Committee, comprised of our President/Chief Executive Officer, Chief Lending Officer, and Chief Credit Officer, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in the aggregate, in excess of $2.5 million require the approval of a majority of the Discount Committee, which consists of all Bank directors, prior to the closing of the loan. All loans are subject to ratification by the full Board of Directors. The aggregate amount of loans that the Bank is permitted to make under applicable federal regulations to any one borrower, including related entities, or the aggregate amount that the Bank could have invested in any one real estate project, is based on the Bank's capital levels. See "Regulation - Loans to One Borrower." At June 30, 2016, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately $36.4 million. At June 30, 2016, the Bank's ten largest credit relationships, as defined by loan to one borrower limitations, ranged from $11.7 million to $20.5 million, net of participation interests sold. As of June 30, 2016, 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,									
	2016		2015		2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perce
			(Dollars in thousands)							
Type of Loan:										
Mortgage Loans:										
Residential real estate	$392,974	34.61 %	$377,465	35.84 %	$303,901	37.94 %	$233,888	36.14 %	$201,013	34.4
Commercial real estate[1]	452,052	39.81	404,720	38.43	308,520	38.51	242,304	37.44	200,957	34.4
Construction	77,369	6.82	69,204	6.57	40,738	5.09	30,725	4.75	40,182	6.89
Total mortgage loans	922,395	81.24	851,389	80.84	653,159	81.54	506,917	78.33	442,152	75.7
Other Loans:										
Automobile loans	6,221	0.55	6,333	0.60	8,276	1.03	6,779	1.05	7,552	1.29
Commercial business[2]	202,045	17.79	191,886	18.22	141,072	17.61	130,868	20.22	137,004	23.4
Home equity	25,146	2.21	23,472	2.23	17,929	2.24	15,775	2.44	15,856	2.72
Other	15,174	1.34	16,965	1.61	9,018	1.13	5,862	0.90	5,578	0.96
Total other loans	248,586	21.89	238,656	22.66	176,295	22.01	159,284	24.61	165,990	28.4
Total loans	1,170,981	103.13	1,090,045	103.50	829,454	103.55	666,201	102.94	608,142	104.
Less:										
Undisbursed loans in process	21,779	1.92	24,688	2.34	19,261	2.41	10,792	1.67	17,370	2.98
Deferred fees and discounts	(42)	(0.00)	(87)	(0.01)	(122)	(0.02)	(143)	(0.02)	(185)	(0.0
Allowance for loan losses	13,791	1.21	12,298	1.17	9,259	1.16	8,386	1.29	7,492	1.28
Net loans receivable	$1,135,453	100.00%	$1,053,146	100.00%	$801,056	100.00%	$647,166	100.00%	$583,465	100.
Type of Security:										
Residential real estate										
One- to four-family	$326,186	28.73 %	$316,804	30.08 %	$235,947	29.45 %	$205,281	31.72 %	$189,313	32.4
Multi-family	128,980	11.36	118,178	11.22	87,161	10.88	47,388	7.32	36,513	6.26
Commercial real estate	329,781	29.04	296,082	28.11	243,090	30.35	190,563	29.45	162,478	27.8

Land	137,448	12.11	120,327	11.43	86,960	10.86	63,689	9.84	58,830	10.0
Commercial	202,045	17.79	191,884	18.22	141,072	17.61	130,867	20.22	132,022	22.6
Consumer and other	46,541	4.10	46,770	4.44	35,224	4.40	28,413	4.39	28,986	4.96
Total loans	1,170,981	103.13	1,090,045	103.50	829,454	103.55	666,201	102.94	608,142	104.
Less:										
Undisbursed loans in process	21,779	1.92	24,688	2.34	19,261	2.41	10,792	1.67	17,370	2.98
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Net loans receivable	$1,135,453	100.00%	$1,053,146	100.00%	$801,056	100.00%	$647,166	100.00%	$583,465	100.

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(1) Commercial real estate loan balances included farmland and other agricultural-related real estate loans of $102.2 million, $82.0 million, $63.8 million, $53.0 million and $48.6 million as of June 30, 2016, 2015, 2014, 2013 and 2012, respectively.

(2) Commercial business loan balances included agricultural equipment and production loans of $73.3 million, $57.9 million, $53.4 million, $47.4 million and $50.8 million as of June 30, 2016, 2015, 2014, 2013 and 2012, respectively.

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

	At June 30,									
	2016		2015		2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
			(Dollars in thousands)							
Type of Loan:										
Fixed-Rate Loans:										
Residential real estate	$172,901	15.23 %	$171,479	16.28 %	$136,357	17.01 %	$111,520	17.23 %	$115,716	19
Commercial real estate	356,613	31.41	313,361	29.75	211,833	26.44	156,349	24.16	128,954	22
Construction	58,330	5.14	51,973	4.94	38,928	4.86	26,788	4.14	35,886	6.
Consumer	21,338	1.88	22,973	2.18	17,233	2.15	12,641	1.95	13,130	2.
Commercial business	137,426	12.10	127,017	12.06	86,961	10.86	72,739	11.24	75,910	13
Total fixed-rate loans	746,608	65.76	686,803	65.21	491,312	61.32	380,037	58.72	369,596	63
Adjustable-Rate Loans:										
Residential real estate	220,073	19.38	205,986	19.56	167,544	20.91	122,368	18.91	85,296	14
Commercial real estate	95,439	8.41	91,359	8.67	96,686	12.07	85,955	13.28	72,005	12
Construction	19,039	1.68	17,231	1.64	1,810	0.23	3,937	0.61	4,296	0.
Consumer	25,203	2.22	23,797	2.26	17,990	2.25	15,775	2.44	15,855	2.
Commercial business	64,619	5.68	64,869	6.16	54,112	6.76	58,129	8.98	61,094	10
Total adjustable-rate loans	424,373	37.37	403,242	38.29	338,142	42.22	286,164	44.22	238,546	40
Total loans	1,170,981	103.13	1,090,045	103.50	829,454	103.54	666,201	102.94	608,142	10
Less:										
Undisbursed loans in process	21,779	1.92	24,688	2.34	19,261	2.40	10,792	1.67	17,370	2.
Net deferred loan fees	(42)	(0.00)	(87)	(0.01)	(122)	(0.02)	(143)	(0.02)	(185)	(0
Allowance for loan loss	13,791	1.21	12,298	1.17	9,259	1.16	8,386	1.29	7,492	1.
Net loans receivable	$1,135,453	100.00%	$1,053,146	100.00%	$801,056	100.00%	$647,166	100.00%	$583,465	10

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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, 2016, residential loans secured by one- to four-family residences totaled $264.0 million, or 23.2% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2016, the Bank originated $27.9 million of ARM loans and $27.6 million of fixed-rate loans that were secured by one- to four-family residences, for retention in the Bank’s portfolio. An additional $22.9 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%, the Bank charges an additional 50-75 basis points, but does not require private mortgage insurance. At June 30, 2016, the remaining balance of loans originated with a loan-to-value ratio in excess of 80% was $66.6 million. For fiscal years ended June 30, 2016, 2015, 2014, 2013 and 2012, originations of one- to four-family loans in excess of 80% loan-to-value have totaled $16.5 million, $24.3 million, $13.6 million, $13.8 million and $12.7 million, respectively, totaling $80.9 million. The remaining balance of those loans at June 30, 2016, was $50.1 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 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, 2016, one- to four-family loans with a fixed rate totaled $139.9 million, and had a weighted-average maturity of 116 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, 2016, one- to four-family loans tied to the CMT index totaled $130.7 million. One- to four-family loans tied to other indices totaled $12.0 million.

In underwriting one- to four-family residential real estate loans, the Bank evaluates the borrower's ability to meet debt service requirements at current as well as fully indexed rates for ARM loans, as well as the value of the property securing the loan. Most properties securing real estate loans made by the Bank during fiscal 2016 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, 2016, the Bank had $129.0 million, or 11.4% 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

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

Commercial Real Estate Lending. The Bank actively originates loans secured by commercial real estate including land (improved and unimproved), strip shopping centers, retail establishments, nursing homes and other healthcare related facilities, and other businesses generally located in the Bank's market area. At June 30, 2016, the Bank had $452.1 million in commercial real estate loans, which represented 40.0% of net loans receivable. Of this amount, $102.2 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 seven 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 38 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, 2016, the Bank had $77.4 million, or 6.8% 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, 2016, $43.9 million of the Bank's construction loans were secured by one- to four-family residential real estate (of which $6.0 million was for speculative construction), $18.3 million of which were secured by multi-family residential real estate, and $15.2 million of which were secured by commercial real estate. During construction, these loans typically require monthly interest-only payments and have maturities ranging from 6 to 12 months. Once construction is completed, permanent construction loans may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally up to 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 loans, second mortgages, mobile homes and loans secured by deposits. The Bank originates substantially all of its consumer loans in its primary market area. Usually, consumer loans are originated with fixed rates for terms of up to five years, with the exception of home equity lines of credit, which are variable, tied to the prime rate of interest, and are for a period of ten years. At June 30, 2016, the Bank's consumer loan portfolio totaled $46.5 million, or 4.1% of net loans receivable.

Home equity loans represented 54.0% of the Bank's consumer loan portfolio at June 30, 2016, and totaled $25.1 million, or 2.2% of net loans receivable.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are issued up to 100% of the appraised or assessed value of the property securing the line of credit, less the outstanding balance on the first mortgage. Interest rates on the HELOCs are adjustable and are tied to the current prime interest rate, generally with an interest rate floor in the loan agreement. This rate is obtained from the Wall Street Journal and adjusts on a daily basis. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity. HELOCs, which are secured by residential properties, are secured by stronger collateral than other consumer loans and because of the adjustable rate structure, contain less interest rate risk to the Bank. Lending up to 100% of the value of the property presents greater credit risk to the Bank. Consequently, the Bank limits this product to customers with a favorable credit history. At June 30, 2016, lines of credit up to 80% of the property value represented 87.0% of outstanding balances, and 88.9% of balances and commitments; lines of credit for more than 80%, but not exceeding 90%, of the property value represented 12.8% of outstanding balances and 10.9% of balances and commitments; and lines of credit in excess of 90% of the property value represented 0.2% of outstanding balances and 0.2% of balances and commitments.

Automobile loans represented 13.4% of the Bank's consumer loan portfolio at June 30, 2016, and totaled $6.2 million, or 0.55% 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, 2016, the Bank had $202.0 million in commercial business loans outstanding, or 17.8% of net loans receivable. Of this amount, $73.3 million were loans related to agriculture, including amortizing equipment loans and annual production lines. The increase over the last several fiscal years in agricultural business 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 business lending and experience in that type of business development. The Company expects to continue to grow its agricultural lending portfolio, but expects that the rate of growth experienced over the last several fiscal years is unlikely to be maintained. The Bank expects to continue to maintain the current percentage of commercial business loans in its total loan portfolio.

The Bank currently offers both fixed and adjustable rate commercial business loans. At year end, the Bank had $137.5 million in fixed rate and $64.6 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, 2016. Commitments to extend credit totaled $163.8 million at June 30, 2016.

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
	(Dollars in thousands)				
Federal Home Loan Bank advances	$79,750	$30,466	$---	$---	$110,216
Certificates of deposit	245,904	103,799	49,020	---	398,723
Total	$325,654	$134,265	$49,020	$---	$508,939

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
	(Dollars in thousands)				
Construction loans in process	$21,779	$---	$---	$---	$21,779

Other commitments	118,670	3,976	5,682	13,674	142,002
	$140,449	$3,976	$5,682	$13,674	$163,781

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2016, 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	$160,732	$180,388	$22,946	$28,908	$392,974
Commercial real estate	153,516	257,811	38,731	1,994	452,052
Construction	73,578	3,475	316	---	77,369
Consumer	30,742	15,297	469	33	46,541
Commercial business	126,214	60,479	9,204	6,148	202,045
Total loans	$544,782	$517,450	$71,666	$37,083	$1,170,981

As of June 30, 2016, loans with a maturity date after June 30, 2017, with fixed interest rates totaled $416.1 million, and loans with a maturity date after June 30, 2017, with adjustable rates totaled $344.0 million.

Loan Originations, Sales and Purchases

Generally, all loans are originated by the Bank's staff, who are salaried loan officers. Loan applications are generally taken and processed at each of the Bank's full-service locations, and the Bank 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 2016, the Bank originated $425.9 million of loans, compared to $391.2 million and $289.7 million, respectively, in fiscal 2015 and 2014. Of these loans, mortgage loan originations were $334.2 million, $276.0 million and $226.2 million in fiscal 2016, 2015 and 2014, 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 2016, the Bank purchased $5.8 million of new loan participations. At June 30, 2016, loan participations totaled $12.2 million, or 1.07% of net loans receivable. At June 30, 2016, 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,		
	2016	2015	2014
		(Dollars in thousands)	
Total loans at beginning of period	$1,090,045	$829,454	$666,201
Loans originated:			
One- to four-family residential	78,356	66,876	64,612
Multi-family residential and commercial real estate	179,253	142,147	130,609
Construction loans	76,579	66,975	31,026
Commercial business	76,257	95,438	50,713
Consumer and others	15,416	19,723	12,756
Total loans originated	425,861	391,159	289,716
Loans purchased:			
Total loans purchased (1)	5,760	198,083	61,473
Loans sold:			
Total loans sold	(22,898)	(16,556)	(22,314)
Principal repayments	(319,510)	(303,625)	(163,581)
Participation principal repayments	(7,621)	(6,123)	(1,532)
Foreclosures	(656)	(2,347)	(509)
Net loan activity	80,936	260,591	163,253
Total loans at end of period	$1,170,981	$1,090,045	$829,454

(1) Amount reported in fiscal 2015 includes the Company’s acquisition of loans from the Peoples acquisition recorded at a $190.4 million fair value, and in fiscal 2014 includes the Company’s acquisition of loans from the Ozark Legacy acquisition and the Citizens acquisition recorded at $39.4 million and $12.0 million fair value, respectively.

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 $163.8 million at June 30, 2016. See Note 15 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, 2016.

	Loans Delinquent For:				Total Loans Delinquent 60 Days or More	
	60-89 Days		90 Days and Over			
	Numbers	Amounts	Numbers	Amounts	Numbers	Amounts
	(Dollars in thousands)					
Residential real estate	6	$ 457	14	$ 1,970	20	$ 2,427
Commercial real estate	---	---	2	207	2	207
Construction	---	---	2	33	2	33
Consumer	6	99	7	39	13	138
Commercial Business	6	138	4	623	10	761
Totals	18	$ 694	29	$ 2,872	47	$ 3,566

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

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

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

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

	At June 30,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Nonaccruing loans:					
Residential real estate	$2,676	$2,202	$444	$414	$395
Construction	388	133	---	---	---
Commercial real estate	1,797	1,271	673	157	977
Consumer	160	88	58	24	16
Commercial business	603	63	91	842	1,010
Total	5,624	3,757	1,266	1,437	2,398
Loans 90 days past due accruing interest:					
Residential real estate	---	---	106	---	---
Construction	---	---	---	---	---
Commercial real estate	---	---	18	---	---
Consumer	7	34	6	---	---
Commercial business	31	11	---	---	---
Total	38	45	130	---	---
Total nonperforming loans	5,662	3,802	1,396	1,437	2,398

Nonperforming investments	---	---	---	125	125
Foreclosed assets held for sale:					
Real estate owned	3,305	4,440	2,912	3,030	1,426
Other nonperforming assets	61	64	65	46	9
Total nonperforming assets	$9,028	$8,306	$4,373	$4,638	$3,958
Total nonperforming loans to net loans	0.50 %	0.36 %	0.17 %	0.22 %	0.41 %
Total nonperforming loans to total assets	0.40 %	0.29 %	0.14 %	0.18 %	0.32 %
Total nonperforming assets to total assets	0.64 %	0.64 %	0.43 %	0.58 %	0.54 %

At June 30, 2016, troubled debt restructurings (TDRs) totaled $8.4 million, of which $2.3 million was considered nonperforming and was included in the nonaccrual loan total above. The remaining $6.1 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, 2015, TDRs totaled $9.3 million, of which $2.8 million 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, 2016, 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, 2016, the Company's balance of real estate owned totaled $3.3 million and included $623,000 residential and $2.7 million non-residential properties.

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

On the basis of management's review of the assets of the Company, at June 30, 2016, classified assets totaled $16.0 million, or 1.14% of total assets as compared to $20.9 million, or 1.61% of total assets at June 30, 2015. Of the amount classified as of June 30, 2016, $16.0 million was considered substandard, while none was considered doubtful or loss. Included in classified assets at June 30, 2016, was one significant loan relationship with outstanding classified balances of $1.5 million secured by commercial real estate, an aircraft, and a general business lien (an additional $3.2 million outstanding to this borrower is not classified, due to a USDA guarantee). Also included are various other loans totaling $9.5 million (see Note 3 of Notes to the Consolidated Financial Statements contained in Item 8 for more information on classified loans); foreclosed real estate and repossessed assets totaling $3.4 million; and all of the Company's investments in pooled trust preferred securities, with a book value of $1.6 million. Classified loans are so designated due to concerns regarding the borrower's ability to generate sufficient cash flows to service the debt. The investments in pooled trust preferred securities were classified due to concerns about the ability of the pools to generate sufficient cash flows to service the debt. Two of these securities, with a book value of $630,000, have previously deferred interest payments, and another of these securities, with a book value of $471,000, continues to defer interest payments as of June 30, 2016. Classified loans totaling $5.6 million had been placed on nonaccrual status at June 30, 2016, of which $2.7 million were more than 30 days delinquent. Of the remaining $5.4 million of classified loans, all were performing in accordance with terms at June 30, 2016, and none were more than 30 days delinquent.

Other Loans of Concern. In addition to the classified assets above, there was also an aggregate of $3.7 million in loans, with respect to which management has doubts as to the ability of the borrowers to continue to comply with present loan repayment terms, which may ultimately result in the classification of such assets. These loans continued to perform according to terms as of June 30, 2016, but were identified as other loans of concern due to concerns regarding the borrower's ability to continue to generate sufficient cash flows to service the debt.

Allowance for Loan Losses. The Bank's allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of loan activity, including those loans which are being specifically monitored. Such evaluation, which includes a review of loans for which full 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 providing for an adequate provision for loan losses. These provisions for loan losses are charged against earnings in the year they are established. The Bank had an allowance for loan losses at June 30, 2016, of $13.8 million, which represented 152% of nonperforming assets as compared to an allowance of $12.3 million, which represented 148% of nonperforming assets at June 30, 2015.

At June 30, 2016, the Bank also had an allowance for credit losses on off-balance sheet credit exposures of $745,000, as compared to $704,000 at June 30, 2015. 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,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Allowance at beginning of period	$12,298	$9,259	$8,386	$7,492	$6,438
Recoveries					
Residential real estate	5	11	16	4	7
Construction real estate	---	---	---	1	1
Commercial real estate	46	47	1	5	---
Commercial business	15	33	17	8	16
Consumer	8	4	95	16	15
Total recoveries	74	95	129	34	39
Charge offs:					
Residential real estate	167	54	169	302	98
Construction real estate	---	---	---	35	---
Commercial real estate	97	9	96	422	41
Commercial business	725	128	59	50	436
Consumer	86	50	578	47	195
Total charge offs	1,075	241	902	856	770
Net charge offs	(1,001)	(146)	(773)	(822)	(731)
Provision for loan losses	2,494	3,185	1,646	1,716	1,785
Balance at end of period	$13,791	$12,298	$9,259	$8,386	$7,492
Ratio of allowance to total loans outstanding at the end of the period	1.20 %	1.15 %	1.14 %	1.28 %	1.27 %
Ratio of net charge offs to average loans outstanding during the period	0.09 %	0.01 %	0.10 %	0.13 %	0.13 %

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

	At June 30, 2016		2015		2014		2013		2012	
	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	$3,247	33.56 %	$2,819	34.63 %	$2,462	36.64 %	$1,810	35.11 %	$1,635	33.05 %
Construction	1,091	6.61	899	6.35	355	4.91	273	4.61	243	6.61
Commercial real estate	5,711	38.60	4,956	37.13	4,143	37.19	3,602	36.37	2,986	33.04
Consumer	738	3.98	758	4.29	519	4.25	472	4.27	484	4.77
Commercial business	3,004	17.25	2,866	17.60	1,780	17.01	2,229	19.64	2,144	22.53
Total allowance for loan losses	$13,791	100.00 %	$12,298	100.00 %	$9,259	100.00 %	$8,386	100.00 %	$7,492	100.00 %

Investment Activities
General. Under Missouri law, the Bank is permitted to invest in various types of liquid assets, including U.S. Government and State of Missouri obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, banker's acceptances, repurchase agreements, federal funds, commercial paper, investment grade corporate debt securities and obligations of States and their political sub-divisions. Generally, the investment policy of the Company is to invest funds among various categories of investments and repricing characteristics based upon the Bank's need for liquidity, to provide collateral for borrowings and public unit deposits, to help reach financial performance targets and to help maintain asset/liability management objectives.
The Company's investment portfolio is managed in accordance with the Bank's investment policy which was adopted by the Board of Directors of the Bank and is implemented by members of the asset/liability management committee which consists of the President/CEO, the CFO, the COO and four outside directors.
Investment purchases and/or sales must be authorized by the appropriate party, depending on the aggregate size of the investment transaction, prior to any investment transaction. The Board of Directors reviews all investment transactions. All investment purchases are identified as available-for-sale ("AFS") at the time of purchase. The Company has not classified any investment securities as held-to-maturity over the last five years. Securities classified as "AFS" must be reported at fair value with unrealized gains and losses, net of tax, recorded as a separate component of stockholders' equity. At June 30, 2016, AFS securities totaled $129.2 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, 2016, 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, 2016, the Company's debt and other securities portfolio totaled $58.0 million, or 4.13% of total assets as compared to $59.5 million, or 4.58% of total assets at June 30, 2015. During fiscal 2016, the Bank had $10.6 million in maturities and $18.4 million in securities purchases. Of the securities that matured, $8.6 million was called for early redemption. At June 30, 2016, the investment securities portfolio included $6.5 million in U.S. government and government agency bonds, of which $4.5 million is subject to early redemption at the option of the issuer, and $46.2 million in municipal bonds, of which $41.1 million is subject to early redemption at the option of the issuer. The remaining portfolio consists of $5.3 million in other securities (including pooled trust preferred securities with an estimated fair value of $1.0 million). Based on projected maturities, the weighted average life of the debt and other securities portfolio at June 30, 2016, was 44 months. Membership stock held in the FHLB of Des Moines, totaling $6.0 million, and the Federal Reserve Bank of St. Louis, totaling $2.3 million, along with equity stock of $475,000 in two correspondent (banker's) banks, was not included in the above totals.
At June 30, 2016, the Company owned four pooled trust preferred securities with an estimated fair value of $1.0 million and a book value of $1.6 million. For three of these securities, the estimated fair value of $673,000 is less than the book value of $1.4 million. The June 30, 2016, cash flow analysis for these three securities indicated it is probable the Company will receive all contracted principal and related interest projected. The cash flow analysis used in making this determination was based on anticipated default, recovery, and prepayment rates, and the resulting cash flows were discounted based on the yield anticipated at the time the securities were purchased. At December 31, 2008, analysis of the fourth pooled trust preferred security indicated other-than-temporary impairment (OTTI). The loss recognized at that time reduced the amortized cost basis for that security, and as of June 30, 2016, the estimated fair value of the security exceeds the new, lower amortized cost basis. See Note 2 of Notes to the Consolidated Financial Statements contained in Item 8.
Mortgage-Backed Securities. At June 30, 2016, mortgage-backed securities ("MBS") totaled $71.2 million, or 5.1%, of total assets, as compared to $70.1 million, or 5.4%, of total assets at June 30, 2015. During fiscal 2016, the Bank had maturities and prepayments of $13.3 million and $14.2 million in purchases of MBS. At

June 30, 2016, the MBS portfolio included $54.6 million in fixed-rate MBS, and $16.6 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, 2016, was 45 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual prepayment rates.

Investment Securities Analysis

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

	At June 30,					
	2016		2015		2014	
	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
			(Dollars in thousands)			
U.S. government and government agencies	$6,517	9.75 %	$14,814	22.28 %	$24,074	30.83 %
State and political subdivisions	46,185	69.12	42,021	63.21	45,356	58.08
Other securities	5,291	7.92	2,704	4.07	2,641	3.38
FHLB/FNBB/MIB membership stock	6,484	9.70	4,602	6.92	4,597	5.89
Federal Reserve Bank membership stock	2,343	3.51	2,340	3.52	1,424	1.82
Total	$66,820	100.00 %	$66,481	100.00 %	$78,092	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, 2016.

	Available for Sale Securities June 30, 2016		
	Amortized Cost	Fair Value	Tax-Equiv. Wtd.-Avg. Yield
	(Dollars in thousands)		
U.S. government and government agency securities:			
Due within 1 year	$---	$---	0.00 %
Due after 1 year but within 5 years	5,960	6,017	1.62
Due after 5 years but within 10 years	500	500	2.17
Due over 10 years	---	---	---
Total	6,460	6,517	1.66 %
State and political subdivisions:			
Due within 1 year	103	103	0.62 %
Due after 1 year but within 5 years	4,376	4,435	2.75
Due after 5 years but within 10 years	15,665	16,288	4.68
Due over 10 years	24,224	25,359	4.16
Total	44,368	46,185	4.20 %
Other securities:			
Due within 1 year	765	773	2.59 %
Due after 1 year but within 5 years	102	102	1.46
Due after 5 years but within 10 years	1,991	2,032	5.52

Due over 10 years	3,003	2,384	1.68	
Total	5,861	5,291	3.10	%
No stated maturity:				
FHLB/FNBB/MIB membership stock	6,484	6,484	2.38	%
Federal Reserve Bank membership stock	2,343	2,343	6.00	
Total	8,827	8,827	3.34	%
Total debt and other securities	$65,516	$66,820	3.73	%

The following table sets forth certain information at June 30, 2016 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, 2016 (Dollars in thousands)
Amounts due:	
Within 1 year	$ ---
After 1 year through 3 years	---
After 3 years through 5 years	283
After 5 years	69,610
Total	$ 69,893

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, 2016, which have fixed, floating, or adjustable interest rates.

	At June 30, 2016 (Dollars in thousands)
Interest rate terms on amounts due after 1 year:	
Fixed	$ 69,893
Adjustable	---
Total	$ 69,893

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

	At June 30,					
	2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
FHLMC certificates	$23,298	$23,799	$24,371	$24,586	$14,008	$14,189
GNMA certificates	1,814	1,856	2,230	2,248	4,228	4,248
FNMA certificates	28,292	28,931	32,391	32,668	26,470	26,784
Collateralized mortgage obligations issued by government agencies	16,489	16,645	10,491	10,552	13,074	12,930
Total	$69,893	$71,231	$69,483	$70,054	$57,780	$58,151

Deposit Activities and Other Sources of Funds

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

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

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

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

The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. Based on its experience, the Bank believes that its deposits are relatively stable sources of funds. However, the ability of the Bank to attract and maintain certificates of deposit, and the rates paid on these deposits, has been and will continue to be significantly affected by market conditions. The following table depicts the composition of the Bank's deposits as of June 30, 2016:

As of June 30, 2016					
Weighted Average Interest Rate	Term	Category	Minimum Amount	Balance	Percentage of Total Deposits
			(Dollars in thousands)		
0.00%	None	Non-interest Bearing	$ 100	$ 131,996	11.78 %
0.73	None	NOW Accounts	100	396,105	35.34
0.32	None	Savings Accounts	100	115,714	10.33
0.29	None	Money Market Deposit Accounts	1,000	78,155	6.97
<u>Certificates of Deposit</u>					
0.76	6 months or less	Fixed Rate/Term	1,000	48,215	4.30
0.44	6 months or less	IRA Fixed Rate/Term	1,000	2,535	0.23
0.78	7-12 months	Fixed Rate/Term	1,000	100,595	8.98
0.57	7-12 months	IRA Fixed Rate/Term	1,000	15,647	1.40
0.92	13-24 months	Fixed Rate/Term	1,000	79,664	7.11
0.79	13-24 months	IRA Fixed Rate/Term	1,000	13,631	1.21
1.23	25-36 months	Fixed Rate/Term	1,000	26,466	2.36
1.06	25-36 months	IRA Fixed Rate/Term	1,000	4,522	0.40
1.83	48 months and more	Fixed Rate/Term	1,000	87,085	7.77
1.70	48 months and more	IRA Fixed Rate/Term	1,000	20,363	1.82
				$ 1,120,693	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, 2016. 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	$ 29,884
Over three through six months	40,412
Over six through twelve months	67,513
Over 12 months	96,703
Total	$ 234,512

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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, 2016	2015	2014
	(Dollars in thousands)		
0.00 - 0.99%	$205,387	$234,845	$182,970
1.00 - 1.99%	162,180	124,608	107,467
2.00 - 2.99%	28,135	30,613	19,113
3.00 - 3.99%	20	5,987	13,523
4.00 - 4.99%	---	---	100
5.00 - 5.99%	3,001	5,985	---
Total	$398,723	$402,038	$323,173

The following table sets forth the amount and maturities of all time deposits at June 30, 2016.

	Amount Due Less Than One Year	1-2 Years	2-3 Years	3-4 Years	After 4 Years	Total	Percent of Total Certificate Accounts	
	(Dollars in thousands)							
0.00 – 0.99%	$176,450	$28,805	$53	$---	$79	$205,387	51.51	%
1.00 – 1.99%	57,641	46,674	24,011	19,836	14,018	162,180	40.67	
2.00 - 2.99%	11,793	559	696	10,282	4,805	28,135	7.06	
3.00 - 3.99%	20	---	---	---	---	20	0.01	
4.00 - 4.99%	---	---	---	---	---	---	---	
5.00 - 5.99%	---	3,001	---	---	---	3,001	0.75	
Total	$245,904	$79,039	$24,760	$30,118	$18,902	$398,723	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, 2016			2015			2014		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
	(Dollars in thousands)								
Noninterest bearing	$131,996	11.78 %	$14,525	$117,471	11.13 %	$49,359	$68,112	8.67 %	$22,671
NOW checking	396,105	35.34	60,008	336,097	31.85	64,941	271,156	34.51	63,108
Savings accounts	115,714	10.33	(16,170)	131,884	12.50	36,557	95,327	12.13	10,954
Money market deposit	78,155	6.97	10,403	67,752	6.42	39,719	28,033	3.57	5,758
Fixed-rate certificates which mature[1]:									
Within one year	245,904	21.94	618	245,286	23.24	37,919	207,367	26.39	46,499
Within three years	103,799	9.26	(11,184)	114,983	10.90	36,536	78,447	9.98	(3,603)
After three years	49,020	4.38	7,251	41,769	3.96	4,410	37,359	4.75	8,264
Variable-rate certificates which mature:									
Within one year	---	---	---	---	---	---	---	---	(130)
Within three years	---	---	---	---	---	---	---	---	(98)
Total	$1,120,693	100.00 %	$65,451	$1,055,242	100.00 %	$269,441	$785,801	100.00 %	$153,423

(1) At June 30, 2016, 2015 and 2014, certificates in excess of $100,000 totaled $234.5 million, $225.2 million and $177.5 million, respectively.

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

	At June 30,		
	2016	2015	2014
	(Dollars in thousands)		
Beginning Balance	$1,055,242	$785,801	$632,379
Net increase before interest credited	58,044	262,582	147,459
Interest credited	7,407	6,859	5,963
Net increase in deposits	65,451	269,441	153,422
Ending balance	$1,120,693	$1,055,242	$785,801

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, 2016, the Bank had $110.2 million in FHLB advances, of which $69.8 million was overnight borrowings, another $40.4 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years. In order for the Bank to borrow from the FHLB, it has pledged $522.9 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 $163.9 million) and has purchased $6.0 million in FHLB stock. At June 30, 2016, the Bank had additional borrowing capacity on its pledged residential and commercial real estate loans from the FHLB of $138.2 million, as compared to $307.4 million at June 30, 2015.

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, 2016, the Bank was approved to borrow up to $112.6 million through the discount window, but no balance was outstanding.

Also classified as borrowings are the Bank's securities sold under agreements to repurchase ("repurchase agreements"). These agreements are typically entered into with local public units or corporations. Generally, the Bank pays interest on these agreements at a rate similar to those available on repurchase agreements with wholesale funding sources, but in the current rate environment the Bank is paying a rate slightly higher than the market for such funding. The Bank views repurchase agreements with local entities as a stable funding source, and collateral requirements relating to public units are somewhat easier to manage using repurchase agreements. At June 30, 2016, the Bank had outstanding $27.1 million in repurchase agreements, as compared to $27.3 million at June 30, 2015.

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, 2016, the current rate was 3.41%. 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, 2016, the carrying value was $2.6 million with a current rate was 3.10%.

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, 2016, the carrying value was $5.0 million with a current rate was 2.45%.

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,		
	2016	2015	2014
		(Dollars in thousands)	
Year end balances			
Short-term FHLB advances	$69,750	$23,500	$59,900
Securities sold under agreements to repurchase	27,085	27,332	25,561
	$96,835	$50,832	$85,461
Weighted average rate at year end	0.45 %	0.38 %	0.35 %

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

	Year Ended June 30,		
	2016	2015	2014
	(Dollars in thousands)		
FHLB advances			
Daily average balance	$65,273	$80,415	$58,926
Weighted average interest rate	1.95 %	1.59 %	1.84 %
Maximum outstanding at any month end	$100,993	$118,067	$85,400
Securities sold under agreements to repurchase			
Daily average balance	$27,387	$25,443	$24,492
Weighted average interest rate	0.44 %	0.46 %	0.53 %
Maximum outstanding at any month end	$31,575	$28,198	$26,897
Subordinated Debt			
Daily average balance	$14,705	$14,112	$9,011
Weighted average interest rate	3.86 %	3.63 %	3.38 %
Maximum outstanding at month end	$14,753	$14,658	$10,310

Subsidiary Activities
The Bank has three subsidiaries, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2016, and is currently inactive and SB Corning, LLC and SB Real Estate Investments, LLC both active subsidiaries. SB Corning, LLC represents a $1.5 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 currently wholly-owned by the investment subsidiary, but which will have other preferred shareholders in order to meet the requirements to be a REIT. At June 30, 2016 neither had any assets.

REGULATION

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

Recent Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) imposed various restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The following discussion summarizes significant aspects of the Dodd-Frank Act that may affect the Bank and the Company.

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

- The Consumer Financial Protection Bureau (“CFPB”), an independent consumer compliance regulatory agency within the Federal Reserve, has been established. The CFPB is empowered to exercise broad regulatory, supervisory and enforcement authority over financial institutions with total assets of over $10 billion with respect to 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.

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. The respective primary federal regulators of the Company and the Bank have authority to impose penalties, initiate civil and administrative actions and take other steps intended to prevent banks from engaging in unsafe or unsound practices.

State Regulation and Supervision. As a state-chartered trust company with banking powers, the Bank is subject to applicable provisions of Missouri law and the regulations of the Missouri Division of Finance. 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, 2016, 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, 2016, the Bank had $6.0 million in FHLB stock, which was in compliance with this requirement. The Bank received $99,000 and $116,000 in dividends from the FHLB of Des Moines for the years ended June 30, 2016 and 2015, respectively.

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

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The general insurance limit is $250,000. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against a member bank of the Federal Reserve Board 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 fund 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. Until the FDIC’s reserve ratio reaches 1.15%, the FDIC assessment rates for an institution with assets of less than $10 billion generally range from approximately 2.5 basis points to 45 basis points, depending on applicable adjustments. Effective for the quarter beginning July 1, 2016 or the quarter that begins after the reserve ratio reserve ratio reaches 1.15%, the assessment rates for such an institution 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, 2016, was 0.56 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, effective January 1, 2015, 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. Additionally, an institution shall be 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, after notice and an opportunity for a hearing, reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or has received in its most recent examination, and has not corrected, a less than satisfactory rating for asset quality, management, earnings, liquidity or sensitivity to market risk. (The agency may not, however, reclassify a significantly undercapitalized institution as critically undercapitalized.) An institution that is not well capitalized is subject to certain restrictions on its deposit rates.

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

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

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

At June 30, 2016, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FRB.

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

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

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

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

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%.

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. In addition, 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 capital levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying certain discretionary bonuses. This new capital conservation buffer requirement is be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

Under the standards, in order to be considered well-capitalized, Southern Bank is required to have at least a CET1 ratio of 6.5% (new), a Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged), and not be subject to specified requirements to meet and maintain a specific capital ratio for a capital measure.

As of June 30, 2016, Southern Bank and the Company meet all these new requirements, including the full 2.5% capital conservation buffer, and would remain well capitalized if all phased-in requirements had been fully in effect on that date.

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

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

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

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

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

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

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

The Company is subject to the activity limitations imposed on bank holding companies that are not financial holding companies. The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain 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.

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

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

Distributions. To the extent that the Bank makes "nondividend distributions" to the Company, such distributions will be considered to result in distributions from the balance of its bad debt reserve as of December 31, 1987 (or a lesser amount if the Bank's loan portfolio decreased since December 31, 1987) and then from the supplemental reserve for losses on loans ("Excess Distributions"), and an amount based on the Excess Distributions will be included in the Bank's taxable income. Nondividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. The amount of additional taxable income created from an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "nondividend distribution," then approximately one and one-half times the Excess Distribution would be includable in gross income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). See "REGULATION" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

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

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

Missouri Taxation

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

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

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, 2016, the Company had 299 full-time employees and 43 part-time employees. The Company believes that employees play a vital role in the success of a service company and that the Company's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

EXECUTIVE OFFICERS

Greg A. Steffens, the Company’s President and Chief Executive Officer, has been with us since 1998. He was hired in 1998 as Chief Financial Officer and was appointed President and CEO in 1999. He has over 26 years of experience in the banking industry, including service from 1993 to 1998 as chief financial officer of Mount Vernon, Missouri-based Sho-Me Financial Corp, prior to the sale of that company. Mr. Steffens also served from 1989 to 1993 as an examiner with the Office of Thrift Supervision.

Matthew T. Funke, the Company’s Chief Financial Officer, has worked for us since 2003. He has more than 17 years of banking and finance experience. Mr. Funke was initially hired to establish an internal audit function for the Company, and served as internal auditor and compliance officer until 2006, when he was named Chief Financial Officer. Previously, Mr. Funke was employed with Central Bancompany, Inc., where he advanced to the role of internal audit manager, and as a fiscal analyst with the Missouri General Assembly.

Lora L. Daves, the Company’s Chief Credit Officer, has worked for us since 2006. Ms. Daves is responsible for the administration of the Company’s credit portfolio, including analysis of proposed new credits and monitoring of the portfolio’s credit quality. Ms. Daves has over 27 years of banking and finance experience, including 11 years beginning with Mercantile Bank of Poplar Bluff, which merged with and into US Bank, a subsidiary of U.S. Bancorp, headquartered in Minneapolis, Minnesota, during her tenure there. Ms. Daves’ responsibilities with US Bank included credit analysis, underwriting, credit presentation, credit approval, monitoring credit quality, and analysis of the allowance for loan losses. She advanced to hold responsibility for regional credit administration, loan review, compliance, and problem credit management. Ms. Daves’ experience also includes four years as Chief Financial Officer of a Southeast Missouri healthcare provider which operated a critical access hospital, eight rural health clinics, two retail pharmacies, an ambulatory surgery center, and provided outpatient radiology and physical therapy services; and four years with a national real estate development and management firm, working in their St. Louis-based Midwest regional office as a general accounting manager.

William D. Hribovsek, our Chief Lending Officer, has been with us since 1999. Mr. Hribovsek joined the Company as its senior commercial lender, and was named Chief Lending Officer in 2006. He has over 36 years banking experience. Prior to joining the Company, Mr. Hribovsek was employed as a commercial lender from 1979 to 1999 with Commerce Bank of Poplar Bluff, which was since merged with and into Commerce Bank, N.A., a subsidiary of Commerce Bancshares, Inc., headquartered in Kansas City, Missouri. While with Commerce Bank, Mr. Hribovsek oversaw the institution’s installment loan department for 12 years.

Kimberly A. Capps, the Company’s Chief Operations Officer, has been with us since 1994. She has over 24 years banking experience. Ms. Capps is responsible for the Company’s retail deposit operations, product development and marketing, and data processing and network administration functions. Ms. Capps was initially hired by our bank subsidiary as controller, and was named Chief Financial Officer in 2001. In 2006, Ms. Capps was named Chief Operations Officer. Prior to joining the Company, Ms. Capps was employed for more than three years with the accounting firm of Kraft, Miles & Tatum, where she specialized in financial institution audits and taxation.

INTERNET WEBSITE

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

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

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, 2016 and June 30, 2015, our nonperforming assets were $9.0 million and $8.3 million, respectively, or 0.64% of total assets in both years. 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 a further economic slowdown in southeast or southwest Missouri or northeast or north central Arkansas, could hurt our business.

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

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

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

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

Our construction lending exposes us to significant risk.

Our construction loan portfolio, which totaled \$77.4 million, or 6.81% of loans, net, at June 30, 2016, includes residential and non-residential construction and development loans. This type of lending is generally considered to have more complex credit risks than traditional single-family residential lending because the principal is concentrated in a limited number of loans with repayment dependent on the successful completion and sale of the related real estate project. Consequently, these loans are often more sensitive to adverse conditions in the real estate market or the general economy than other real estate loans. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be difficult to dispose of in a market decline. Additionally, we may experience significant construction loan losses because independent appraisers or project engineers inaccurately estimate the cost and value of construction loan projects.

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

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

At June 30, 2016, 57.61% of our loans, net, consisted of commercial real estate and commercial business loans to small and mid-sized businesses, generally located in our primary market area, which are the types of businesses that have a heightened vulnerability to local economic conditions. Over the last several years, we have increased this type of lending from 50.53% of our portfolio at June 30, 2009, in order to improve the yield on our assets. At June 30, 2016, our loan portfolio included \$452.1 million of commercial real estate loans and \$202.0 million of commercial business loans compared to \$97.2 million and \$89.1 million, respectively, at June 30, 2009. The credit risk related to these types of loans is considered to be greater than the risk related to one- to four-family residential loans because the repayment of commercial real estate loans and commercial business loans typically is dependent on the successful operation and income stream of the borrower’s business and the real estate securing the loans as collateral, which can be significantly affected by economic conditions. Additionally, commercial loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. Commercial loans not collateralized by real estate are often secured by collateral that may depreciate over time, be difficult to appraise and fluctuate in value (such as accounts receivable, inventory and equipment). If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could require us to increase our provision for loan losses and adversely affect our operating results and financial condition.

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

Included in the commercial real estate loans described above are agricultural real estate loans totaling \$102.2 million, or 9.0% of our loan portfolio, net, at June 30, 2016. Agricultural real estate lending involves a greater degree of risk and typically involves larger loans to single borrowers than lending on single-family residences. Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the farm borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. The primary crops in our market areas are cotton, rice, corn and soybean. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio. Our agricultural real estate lending has grown significantly since June 30, 2009, when these loans totaled $21.3 million, or 5.8% of our loan portfolio.

Included in the commercial business loans described above are agricultural production and equipment loans. At June 30, 2016, these loans totaled $73.3 million, or 6.5%, of our loan portfolio, net. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans which are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. Any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation to the collateral. Our agricultural operating loans have also grown significantly since June 30, 2009, when such loans totaled $27.5 million, or 7.5% of our loan portfolio. Although agricultural production and equipment loans typically peak for us during the Fall, our highest balance was at June 30, 2016. At September 30, 2015, these loans totaled $70.8 million, or 6.6% of our loan portfolio, net.

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

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

Our concentration in commercial real estate lending may result in additional expense or slow the growth of certain categories of commercial real estate loans as a result of increased regulatory scrutiny.

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 multifamily residential loans and non-owner occupied nonresidential loans, two categories which have been a source of loan growth for the Company. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total loans for construction land development and other land representing 100% or more of the Bank's total capital: or (ii) 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. If a concentration under these guidelines is present, management must employ heightened risk management practices that address, among other things, Board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. As a result of heightened supervisory expectations related to this lending activity, we may incur additional expense to meet those expectations, and/or intentionally slow the growth of the commercial real estate loan portfolio generally, or particular concentrations of borrowers or categories of properties within that definition.

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

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

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

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

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

- We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be adversely affected;
- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this condition in the future;
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into us to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.
- To the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. We are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition;
- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders; and
- We have completed 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 three additional collateralized debt obligations (CDOs) which have not been deemed other-than-temporarily impaired, based on our best judgment using information currently available.

Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. As of June 30, 2016, 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, 2016, our net deferred tax asset was $2.4 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, 2016. 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.
Risks Relating to Our Common Stock
The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock when you want or at prices you find attractive.
We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this “Risk Factors” section:

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

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

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

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

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

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

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

Southern Missouri Bancorp, Inc. is an entity separate and distinct from its subsidiary 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 be able to pay dividends on its common or preferred stock. Also, the Company's right to participate in a distribution of assets upon the subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In addition, holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our board of directors could reduce, suspend or eliminate our common stock cash dividend in the future.

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

As of June 30, 2016, we had outstanding $16.8 million aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by subsidiaries of ours that are statutory business trusts. As of that date, those debt securities were carried at a fair value of $14.8 million.

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

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

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

Anti-takeover provisions could negatively impact our shareholders.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

At June 30, 2016, the Bank operated from its headquarters, 32 full-service branch offices, and three limited-service branch offices. The Bank owns the office building and related land in which its headquarters are located, and 30 of its other branch offices. The remaining five branches are either leased or partially owned.

For additional information regarding our properties, see "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 5 – Premises and Equipment".

During fiscal 2016, two significant construction projects were completed. The first project provided a facility to serve as a new corporate headquarters and a full service office, in Poplar Bluff, Missouri. Following completion of the project, the Bank’s previous headquarters converted to serve as a full-service branch. The second project renovated leased space in a new branch facility in Springfield to replace an existing leased branch. Management believes that our current facilities are adequate to meet our present and immediately foreseeable needs. However, we will continue to monitor customer growth and expand our branching network, if necessary, to serve our customers' needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The common stock of Southern Missouri Bancorp, Inc. is traded under the symbol "SMBC" on the Nasdaq Global Market. The table below shows the high and low closing prices for our common stock for the periods indicated. This information was provided by the Nasdaq. At June 30, 2016, there were 7,437,616 shares of common stock outstanding and approximately 250 common stockholders of record.

	Stock Price		Dividends
2016 Quarters:	High	Low	per Share
Fourth Quarter (ended 6/30/2016)	$24.86	$22.79	$ 0.090
Third Quarter (ended 3/31/2016)	24.02	22.95	0.090
Second Quarter (ended 12/31/2015)	24.40	21.26	0.090
First Quarter (ended 9/30/2015)	21.50	18.75	0.090
2015 Quarters:			
Fourth Quarter (ended 6/30/2015)	$19.49	$18.44	$ 0.085
Third Quarter (ended 3/31/2015)	19.95	18.11	0.085
Second Quarter (ended 12/31/2014)	20.57	17.54	0.085
First Quarter (ended 9/30/2014)	18.05	17.40	0.085
2014 Quarters:			
Fourth Quarter (ended 6/30/2014)	$18.08	$17.26	$ 0.080
Third Quarter (ended 3/31/2014)	18.50	15.99	0.080
Second Quarter (ended 12/31/2013)	18.50	13.03	0.080
First Quarter (ended 9/30/2013)	14.25	12.79	0.080

Our cash dividend payout policy is continually reviewed by management and the Board of Directors. The Company intends to continue its policy of paying quarterly dividends; however, future dividend payments will depend upon a number of factors, including capital requirements, regulatory limitations (See "Item 1. Description of Business – Regulation"), the Company's financial condition, results of operations and the Bank's ability to pay dividends to the Company. The Company relies significantly upon such dividends originating from the Bank to accumulate earnings for payment of cash dividends to stockholders. See "Item 1A. Risk Factors – Risks Relating to our Common Stock – Regulatory and Contractual Restrictions may limit or prevent us from paying dividends on and repurchasing our common stock."

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

On January 2, 2015, the Company declared a two-for-one common stock split in the form of 100% common stock dividend payable on January 30, 2015, to shareholders of record on January 16, 2015. The table above, and all references to stock prices and per share information throughout this annual report on Form 10-K, reflect this split for all periods.

The following table summarizes the Company's stock repurchase activity for each month during the three months ended June 30, 2016.

	Total # of Shares Purchased	Average Price Paid Per Share	Total # of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased
06/01/16 - 06/30/16 period	-	-	-	-

05/01/16 - 05/31/16 period	-	-	-	-
04/01/16 - 04/30/16 period	-	-	-	-

The following graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be "soliciting materials" or to be "filed" with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following graph shows a comparison of stockholder return on Southern Missouri Bancorp, Inc.'s common stock with the cumulative total returns for as shown below the graph, which was compiled by SNL Financial LC of Charlottesville, Virginia. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is historical only and may not be indicative of possible future performance.

Item 6. Selected Financial Data

(Dollars in thousands)	At June 30,				
Financial Condition Data:	2016	2015	2014	2013	2012
Total assets	$1,403,910	$1,300,064	$1,021,422	$796,391	$739,189
Loans receivable, net	1,135,453	1,053,146	801,056	647,166	583,465
Mortgage-backed securities	71,231	70,054	58,151	16,714	19,253
Cash, interest-bearing deposits and investment securities	81,270	78,258	88,658	77,059	90,568
Deposits	1,120,693	1,055,242	785,801	632,379	584,814
Borrowings	137,301	92,126	111,033	52,288	50,142
Subordinated debt	14,753	14,658	9,727	7,217	7,217
Stockholder's equity	125,966	132,643	111,111	101,829	94,728

(Dollars in thousands, except per share data)	For the Year Ended June 30,				
Operating Data:	2016	2015	2014	2013	2012
Interest income	$56,317	$55,301	$40,471	$36,291	$38,965
Interest expense	9,365	8,766	7,485	7,501	9,943
Net interest income	46,952	46,535	32,986	28,790	29,022
Provision for loan losses	2,494	3,185	1,646	1,716	1,785
Net interest income after provision for loan losses	44,458	43,350	31,340	27,074	27,237
Noninterest income	9,758	8,659	6,132	4,468	4,063
Noninterest expense	32,686	32,285	23,646	17,521	16,605
Income before income taxes	21,530	19,724	13,826	14,021	14,695
Income taxes	6,682	6,056	3,745	3,954	4,597
Net Income	14,848	13,668	10,081	10,067	10,098
Less: charge for early redemption of preferred stock issued at a discount	---	---	---	---	94
Less: effective dividend on preferred stock	85	200	200	345	424
Net income available to common stockholders	$14,763	$13,468	$9,881	$9,722	$9,580
Basic earnings per share available to common stockholders(2)	$1.99	$1.84	$1.49	$1.48	$1.71
Diluted earnings per share available to common stockholders(2)	$1.98	$1.79	$1.45	$1.44	$1.66
Dividends per share(2)	$0.36	$0.34	$0.32	$0.30	$0.24

Other Data:	At June 30, 2016	2015	2014	2013	2012
Number of:					
Real Estate Loans	5,554	5,428	4,459	3,637	3,583
Deposit Accounts	60,839	58,927	43,159	31,980	31,307
Full service offices	33	32	22	17	17
Limited service offices	3	3	3	1	1
Loan production offices	---	---	---	---	---

Key Operating Ratios:	At or for the year ended June 30, 2016	2015	2014	2013	2012
Return on assets (net income divided by average assets)	1.11 %	1.07 %	1.09 %	1.32 %	1.37 %
Return on average common equity (net income available to common stockholders divided by average common equity)	12.34	12.48	11.55	12.34	15.15
Average equity to average assets	9.40	10.04	11.43	12.92	11.18
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	3.69	3.81	3.68	3.85	3.90
Net interest margin (net interest income as a percentage of average interest-earning assets	3.80	3.92	3.81	4.02	4.12
Noninterest expense to average assets	2.45	2.53	2.56	2.29	2.25
Average interest-earning assets to average interest-bearing liabilities	114.38	115.39	114.26	116.68	115.19
Allowance for loan losses to gross loans(1)	1.20	1.15	1.14	1.28	1.27
Allowance for loan losses to nonperforming loans(1)	243.66	323.35	663.37	583.41	312.38
Net charge-offs (recoveries) to average outstanding loans during the period	0.09	0.01	0.10	0.13	0.13
Ratio of nonperforming assets to total assets(1)	0.64	0.64	0.43	0.58	0.54
Common shareholder dividend payout ratio (common dividends as a percentage of earnings available to common shareholders	18.12	18.69	21.44	20.31	13.40

(1) At end of period
(2)

All share and per share amounts have been adjusted for the two-for-one common stock split in the form of a 100% common stock dividend paid January 30, 2015.

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

OVERVIEW

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

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

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

Southern Bank’s operations are significantly influenced by general economic conditions including monetary and fiscal policies of the U.S. government and the Federal Reserve Board. Additionally, Southern Bank is subject to policies and regulations issued by financial institution regulatory agencies including the Federal Reserve, the Missouri Division of Finance, and the Federal Deposit Insurance Corporation. Each of these factors may influence interest rates, loan demand, prepayment rates and deposit flows. Interest rates available on competing investments as well as general market interest rates influence the Bank’s cost of funds. Lending activities are affected by the demand for real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered.

Lending activities are funded through the attraction of deposit accounts consisting of checking accounts, passbook and statement savings accounts, money market deposit accounts, certificate of deposit accounts with terms of 60 months or less, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of Des Moines, and, to a lesser extent, brokered deposits. The Bank intends to continue to focus on its lending programs for one- to four-family residential real estate, commercial real estate, commercial business and consumer financing on loans secured by properties or collateral located primarily in southeast Missouri and northeast and north central Arkansas.

All share amounts and per share amounts discussed below have been adjusted for the two-for-one common stock split in the form of a 100% common stock dividend paid January 30, 2015.

NON-GAAP FINANCIAL INFORMATION

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

- Fiscal year 2016 and 2015 net income available to common stockholders excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax;
- Fiscal year 2016 and 2015 return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax;
- Fiscal year 2016 and 2015 return on average common equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax;

- Fiscal year 2016 and 2015 net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition;

Management believes that showing these amounts and measures excluding these items is useful for investors because it better reflects our core operating results and provides useful information by which to evaluate the Company's operating performance on an ongoing basis from period to period. Other acquisitions which included smaller fair value discounts on acquired loans and fair value premiums on acquired time deposits resulted in less variation in what management believes to be core operating results.
The following table presents a reconciliation of the calculation of net income available to common stockholders, excluding accretion of fair value discount on acquired loans and amortization of premium on acquired time deposits related to the Peoples Acquisition, net of tax:

(dollars in thousands)	For the twelve months ended June 30, 2016	June 30, 2015
Net income available to common stockholders	$14,763	$13,468
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	1,084	1,322
Net income available to common shareholders - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	$13,679	$12,146

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

	For the twelve months ended June 30, 2016	June 30, 2015
Return on average assets	1.11%	1.07 %
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	0.08	0.10
Return on average assets - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	1.03%	0.97 %

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

	For the twelve months ended	
	June 30, 2016	June 30, 2015
Return on average common equity	12.34%	12.48%
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	0.91	1.22
Return on average common equity - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition, net of tax	11.43%	11.26%

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

	For the twelve months ended	
	June 30, 2016	June 30, 2015
Net interest margin	3.80 %	3.92 %
Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition	0.14	0.17
Net interest margin - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Peoples Acquisition	3.66 %	3.75 %

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

CRITICAL ACCOUNTING POLICIES

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

The allowance for losses on loans represents management’s best estimate of probable losses in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries.

The provision for losses on loans is determined based on management’s assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

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

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

Loans are considered impaired if, based on current information and events, it is probable that Southern Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the collateral for collateral-dependent loans. If the loan is not collateral-dependent, the measurement of impairment is based on the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. In measuring the fair value of the collateral, management uses the assumptions (i.e., discount rates) and methodologies (i.e., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties. Impairment identified through this evaluation process is a component of the allowance for loan losses. If a loan is not considered impaired, it is grouped together with loans having similar characteristics (i.e., the same risk grade), and an allowance for loan losses is based upon a quantitative factor (historical average charge-offs for similar loans over the past one to five years), and qualitative factors such as qualitative factors such as changes in lending policies; national, regional, and local economic conditions; changes in mix and volume of portfolio; experience, ability, and depth of lending management and staff; entry to new markets; levels and trends of delinquent, nonaccrual, special mention, and classified loans; concentrations of credit; changes in collateral values; agricultural economic conditions; and regulatory risk. For portfolio loans that are evaluated for impairment as part of homogenous pools, an allowance is maintained based upon similar quantitative and qualitative factors. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the conditions of the various markets in which collateral may be sold may all affect the required level of the allowance for losses on loans and the associated provision for losses on loans.

FINANCIAL CONDITION

General. The Company experienced balance sheet growth in fiscal 2016, with total assets of $1.4 billion at June 30, 2016, reflecting an increase of $103.8 million, or 8.0%, as compared to June 30, 2015. Balance sheet growth was primarily comprised of loan growth, investments in bank-owned life insurance, premises and equipment, and cash. Balance sheet growth was funded primarily with deposit growth and advances from the FHLB.

Cash and equivalents. Cash equivalents and time deposits were $22.6 million at June 30, 2016, up $5.8 million, or 34.5%, as compared to June 30, 2015, with the change attributed to normal fluctuations. Interest-bearing time deposits were $723,000 at June 30, 2016, down $1.2 million, or 62.8%, over the same time period.

Investments. Available-for-sale (AFS) securities were $129.2 million at June 30, 2016, a decrease of $369,000, or 0.3%, as compared to June 30, 2015. The decrease was attributable to reductions in government agency bonds, partially offset by increases in municipal bonds, mortgage-backed securities, and other securities.

Loans. Loans, net of the allowance for loan losses, were $1.1 billion at June 30, 2016, up $82.3 million, or 7.8%, as compared to June 30, 2015. The increase in loan balances was primarily attributable to growth in commercial real estate loan balances, residential real estate loan balances, commercial loan balances, and construction loan balances, partially offset by a reduction in consumer loan balances. The increase in residential real estate loan balances was attributable primarily to increases in multifamily real estate loan originations. The increase in commercial real estate loan balances was attributable primarily to increases in nonresidential improved property loan originations, as well as agricultural real estate loan originations. The increase in commercial loan balances was attributable to drawn balances by agricultural borrowers, partially offset by a reduction in commercial and industrial balances.

Allowance for Loan Losses. The allowance for loan losses was $13.8 million at June 30, 2016, an increase of $1.5 million, or 12.1%, as compared to June 30, 2015. The allowance represented 1.20% of gross loans receivable at June 30, 2016, as compared to 1.15% of gross loans receivable at June 30, 2015. The small increase in the allowance as a percentage of gross loans receivable was attributable to provisioning for loan losses at a higher rate than net charge-offs, which was the result of a decreasing balance of loans within the portfolio subject to purchase accounting following the Peoples Acquisition. See also, Provision for Loan Losses, under Comparison of Operating Results for the Years Ended June 30, 2016 and 2015.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data, including past due percentages, charge offs, and recoveries for the previous one to five years for each loan category. Average net charge offs are calculated as net charge offs for the period by portfolio type as a percentage of the average balance of the respective portfolio type over the same period. The Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation.

The following table sets forth the Company's historical net charge offs as of June 30, 2016:

Portfolio segment	Net charge offs - 1-year historical	Net charge offs - 5-year historical
Real estate loans:		
Residential	0.04 %	0.05 %
Construction	0.00	0.02
Commercial	0.01	0.05
Consumer loans	0.25	0.15
Commercial loans	0.14	0.28

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in the financial condition of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. Qualitative factors are reviewed quarterly and may be adjusted as necessary to reflect improving or declining trends. At June 30, 2016, these qualitative factors included:

- Changes in lending policies
- National, regional, and local economic conditions
- Changes in mix and volume of portfolio
- Experience, ability, and depth of lending management and staff
- Entry to new markets
- Levels and trends of delinquent, nonaccrual, special mention and classified loans
- Concentrations of credit
- Changes in collateral values
- Agricultural economic conditions
- Regulatory risk

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

Portfolio segment	Qualitative factor applied at June 30, 2016	Qualitative factor applied at June 30, 2015
Real estate loans:		
Residential	0.75 %	0.76 %
Construction	1.85	1.90
Commercial	1.32	1.33
Consumer loans	1.40	1.42
Commercial loans	1.35	1.38

At June 30, 2016, the amount of our allowance for loan losses attributable to these qualitative factors increased to approximately $12.3 million, as compared to $10.8 million at June 30, 2015, primarily due to loan growth. The relatively small change in qualitative factors applied was attributable to management's assessment that risks represented by the qualitative factors were stable to slightly improving, on balance.

Premises and Equipment. Premises and equipment increased to $46.9 million, up $7.2 million, or 18.2%, as compared to June 30, 2015. The increase was due primarily to construction of a new corporate headquarters, which includes a retail branch, the purchase of integrated teller machines, and the purchase of software and equipment related to phone system and network upgrades.

BOLI. The Bank purchased "key person" life insurance policies on employees in fiscal 2003 and fiscal 2005 for original premiums totaling $6.0 million. In fiscal 2012, the Bank purchased additional "key person" life insurance policies for original premiums totaling $7.5 million. In fiscal 2014, the Bank acquired $2.1 million in additional "key person" life insurance as part of the Citizens State Bank acquisition. And in fiscal 2016, the Bank purchased additional "key person" life insurance for original premiums totaling $10.0 million. At June 30, 2016, the cash surrender value of these policies had increased to $30.1 million, up $10.4 million, or 52.7%, as compared to June 30, 2015.

Intangible Assets. Intangible assets generated as a result of branch acquisitions in fiscal 2000 and the December 2010 assumption of deposits of the former First Southern Bank were fully amortized as of June 30, 2016. The July 2009 acquisition of the Southern Bank of Commerce resulted in goodwill of $126,000, which will not be amortized, but will be tested for impairment at least annually. The October 2013 acquisition of Ozarks Legacy resulted in goodwill of $1.5 million, which will not be amortized, but will be tested for impairment at least annually, and a $1.4 million core deposit intangible, which is being amortized over a five-year period using the straight-line method. The February 2014 acquisition of Citizens resulted in a $624,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method. The August 2014 Peoples Acquisition resulted in goodwill of $3.0 million, which will not be amortized, but will be tested for impairment at least annually, and a $3.0 million core deposit intangible, which is being amortized over a six-year period using the straight-line method.

Deposits. Deposits were $1.1 billion at June 30, 2016, an increase of $65.5 million, or 6.2%, as compared to June 30, 2015. The increase was primarily attributable to growth in interest-bearing transaction accounts, noninterest-bearing transaction accounts, and money market deposit accounts, partially offset by declines in savings accounts and certificates of deposit, as the Company was less aggressive in promoting and pricing these products. The average loan-to-deposit ratio for the fourth quarter of fiscal 2016 was 100.2%, as compared to 99.3% for the same period of the prior fiscal year.

Borrowings. FHLB advances were $110.2 million at June 30, 2016, an increase of $45.4 million, or 70.1%, as compared to June 30, 2015. The increase was attributable to the Company's increase in overnight borrowings due to strong loan demand in the fourth quarter of fiscal 2016, some of which is seasonal, coupled with a slight decrease in deposit balances during the same quarter. Securities sold under agreements to repurchase totaled $27.1 million at June 30, 2016, a decrease of $247,000, or 0.9%, as compared to June 30, 2015. At both dates, the full balance of repurchase agreements was due to local small business and government counterparties.

Subordinated Debt. In March 2004, $7.0 million of Floating Rate Capital Securities of Southern Missouri Statutory Trust I, with a liquidation value of $1,000 per share were issued. The securities bear interest at a floating rate based on LIBOR, are now redeemable at par, and mature in 2034. In connection with its October 2013 acquisition of Ozarks Legacy, the Company assumed $3.1 million in floating rate junior subordinated debt securities. The debt 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, are now redeemable at par, and mature in 2035. The carrying value of these debt securities was approximately $2.6 million and $2.5 million, respectively, at June 30, 2016 and 2015. In connection with 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 Peoples, 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. The carrying value of these debt securities was approximately $5.0 million and $4.9 million, respectively, at June 30, 2016 and 2015.

Stockholders' Equity. The Company's stockholders' equity was $126.0 million at June 30, 2016, a decrease of $6.7 million, or 5.0%, as compared to June 30, 2015. The decrease was attributable to the redemption of the Company's $20.0 million in preferred stock which had been issued in July 2011 under the U.S. Treasury's Small Business Lending Fund program and payments of dividends on common and preferred stock, partially offset by retention of net income and an increase in accumulated other comprehensive income.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Net Income. The Company's net income available to common stockholders for the fiscal year ended June 30, 2016, was $14.8 million, an increase of $1.3 million, or 9.6%, as compared to the prior fiscal year. Before a dividend on preferred shares of $85,000, net income was $14.8 million for the 2016 fiscal year, an increase of $1.2 million, or 8.6%, as compared to the prior fiscal year.

Net Interest Income. Net interest income for fiscal 2016 was $47.0 million, an increase of $417,000, or 0.9%, when compared to the prior fiscal year. The increase, as compared to the prior fiscal year, was attributable to a 4.2% increase in the average balance of interest-earning assets, mostly offset by a decrease in the net interest margin, from 3.92% to 3.80%. Accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Peoples Acquisition was $1.7 million in fiscal 2016, as compared to $2.1 million in fiscal 2015. This component of net interest income contributed an additional 14 basis point to the net interest margin in fiscal 2016, as compared to a contribution of 18 basis points in fiscal 2015. The Company expects the impact of the fair value discount accretion to decline even more significantly during fiscal 2017. Purchase accounting adjustments related to other acquisitions closed by the Company in recent periods have had a less significant impact on net interest income in fiscal 2016 and 2015.

Interest Income. Interest income for fiscal 2016 was $56.3 million, an increase of $1.0 million, or 1.8%, when compared to the prior fiscal year. The increase was due to an increase of $49.6 million in the average balance of interest-earning assets, as a result of an increase in loan balances, partially offset by a ten basis point decrease in the average yield earned on interest-earning assets, from 4.66% in fiscal 2015, to 4.56% in fiscal 2016.

Interest income on loans receivable for fiscal 2016 was $52.8 million, an increase of $1.3 million, or 2.6%, when compared to the prior fiscal year. The increase was due to a $72.1 million increase in the average balance of loans receivable, partially offset by a 21 basis point decrease in the average yield earned on loans receivable. The decline in the average yield was attributed to origination of loans and borrower refinancing in the continued low rate environment, as well as a reduction in the accretion of fair value discount on loans attributable to the Peoples Acquisition, which declined to $1.5 million in fiscal 2016, as compared to $1.8 million in fiscal 2015.

Interest income on the investment portfolio and other interest-earning assets was $3.5 million for fiscal 2016, a decrease of $318,000, or 8.4%, when compared to the prior fiscal year. The decrease was due to a $22.5 million decrease in the average balance of these assets, partially offset by a 13 basis point increase in the average yield earned on these assets.

Interest Expense. Interest expense was $9.4 million for fiscal 2016, an increase of $599,000, or 6.8%, when compared to the prior fiscal year. The increase was due to the $52.5 million increase in the average balance of interest-bearing liabilities, combined with a two basis point increase in the average rate paid on interest-bearing liabilities, from 0.85% in fiscal 2015 to 0.87% in fiscal 2016.

Interest expense on deposits was $7.4 million for fiscal 2016, an increase of $548,000, or 8.0%, when compared to the prior fiscal year. The increase was due to the $65.1 million increase in the average balance of interest-bearing deposits, while the average rate paid on those deposits was unchanged.

Interest expense on FHLB advances was $1.3 million for fiscal 2016, a decrease of $7,000, or 0.5%, when compared to the prior fiscal year. The decrease was due to a $15.1 million decrease in the average balance of FHLB advances, partially offset by a 36 basis point increase in the average rate paid on those advances. The increase in the average rate paid was attributable to the lower average balance outstanding in relatively low-cost overnight borrowings.

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

The provision for loan losses was $2.5 million for fiscal 2016, compared to $3.2 million for the prior fiscal year. The decrease in provision was attributed to management's analysis of the loan portfolio. The analysis noted increased balances of loans subject to allowance methodology, as acquired loan balances initially subject to purchase accounting are replaced over time. In fiscal 2016, net charge offs were $1.0 million, compared to $146,000 for the prior fiscal year. At June 30, 2016, classified loans totaled $11.0 million, or 0.96% of gross loans, as compared to $14.8 million, or 1.39% of gross loans, at June 30, 2015. Classified loans were comprised primarily of commercial and residential real estate. At June 30, 2016, classified loans included $1.7 million in purchased credit impaired loans obtained in the Peoples Acquisition, as compared to $4.3 million at June 30, 2015. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of commercial and agricultural real estate, and commercial and agricultural operating loans, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2016, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

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Noninterest Income. Noninterest income was $9.8 million for fiscal 2016, an increase of $1.1 million, or 12.7%, when compared to the prior fiscal year. The increase was attributed primarily to non-recurring items related to bank-owned life insurance ($323,000), the Company’s ownership of stock in Ozark Trust and Investment Corporation, the acquisition of which by Simmons First National Corporation closed during the fiscal year ($301,000), and the Company’s sale of its interest in a low-income housing tax credit (LIHTC) limited partnership ($138,000). The remainder of the change was attributable to increases in bank card interchange income and deposit account service charges, partially offset by reduction in loan late charges and losses on disposition of fixed assets.

Noninterest Expense. Noninterest expense was $32.7 million for fiscal 2016, an increase of $402,000, or 1.2%, when compared to the prior fiscal year. The increase in noninterest expense was attributable primarily to increased occupancy, supplies and postage, and advertising, partially offset by declines in legal and professional fees and other operating expense as a result of inclusion in fiscal 2015 results of $508,000 in merger-related charges, with no comparable charge in the current period. Additionally, charges to amortize core deposit intangibles were lower as intangibles resulting from branch acquisitions in 2000 and the December 2010 assumption of deposits of the former First Southern Bank were fully amortized during the fiscal year.

Provision for Income Taxes. The Company recorded an income tax provision of $6.7 million for fiscal 2016, an increase of $627,000 as compared to the prior fiscal year. The effective tax rate for fiscal 2016 was 31.0%, as compared to 30.7% for fiscal 2015. The increase in the effective tax rate was attributable primarily to an increase in pre-tax income and average assets, without corresponding increases in tax-advantaged investments, partially offset by a decrease in non-deductible expenses.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Net Income. The Company’s net income available to common stockholders for the fiscal year ended June 30, 2015, was $13.5 million, an increase of $3.6 million, or 36.3%, from the $9.9 million available to common stockholders for the prior fiscal year. Before a dividend on preferred shares of $200,000, net income was $13.7 million for the 2015 fiscal year, as compared to $10.1 million in net income for the prior fiscal year.

Net Interest Income. Net interest income for fiscal 2015 was $46.5 million, an increase of $13.5 million, or 41.1%, when compared to the prior fiscal year. The increase, as compared to the prior fiscal year, was attributable to a 36.9% increase in the average balance of interest-earning assets, primarily from the Peoples Acquisition, combined with an increase in the net interest margin, from 3.81% to 3.92%. Accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Fiscal 2011 Acquisition declined from $632,000 in fiscal 2014, to $288,000 in fiscal 2015. This component of net interest income contributed an additional two basis points to the net interest margin in fiscal 2015, as compared to seven basis points in fiscal 2014. Accretion of fair value discount on loans and amortization of fair value premiums on time deposits related to the Peoples Acquisition was $2.1 million in fiscal 2015, with no comparable impact in the prior fiscal year. This component of net interest income contributed an additional 18 basis points to the net interest margin in fiscal 2015. The Company expects the impact of the fair value discount accretion to continue to decline over time, as the assets acquired at a discount continue to mature or prepay. Purchase accounting adjustments related to other acquisitions closed by the Company in recent periods have had a less significant impact on net interest income.

Interest Income. Interest income for fiscal 2015 was $55.3 million, an increase of $14.8 million, or 36.6%, when compared to the prior fiscal year. The increase was due to an increase of $319.4 million in the average balance of interest-earning assets, primarily from the Peoples Acquisition, partially offset by a one basis point decrease in the average yield earned on interest-earning assets, from 4.67% in fiscal 2014, to 4.66% in fiscal 2015.

Interest income on loans receivable for fiscal 2015 was $51.5 million, an increase of $14.0 million, or 37.2%, when compared to the prior fiscal year. The increase was due to a $280.5 million increase in the average balance of loans receivable, partially offset by a three basis point decrease in the average yield earned on loans receivable. Accretion of fair value discount on loans attributable to the Fiscal 2011 Acquisition declined from $598,000 in fiscal 2014 to $260,000 in fiscal 2015. Accretion of fair value discount on loans attributable to the Peoples Acquisition was $1.8 million in fiscal 2015, with no comparable impact in fiscal 2014.

Interest income on the investment portfolio and other interest-earning assets was $3.8 million for fiscal 2015, an increase of $867,000, or 29.7%, when compared to the prior fiscal year. The increase was due to a $38.9 million increase in the average balance of these assets, partially offset by a one basis point decrease in the average yield earned on these assets.

Interest Expense. Interest expense was $8.8 million for fiscal 2015, an increase of $1.3 million, or 17.1%, when compared to the prior fiscal year. The increase was due to the $269.4 million increase in the average balance of interest-bearing liabilities, partially offset by a 14 basis point decrease in the average rate paid on interest-bearing liabilities, from 0.99% in fiscal 2014 to 0.85% in fiscal 2015.

Interest expense on deposits was $6.9 million for fiscal 2015, an increase of $896,000, or 15.0%, when compared to the prior fiscal year. The increase was due to the $241.9 million increase in the average balance of interest-bearing deposits, partially offset by a 14 basis point decrease in the average rate paid on deposits outstanding, reflecting the repricing of deposits at lower market rates.

Interest expense on FHLB advances was $1.3 million for fiscal 2015, an increase of $192,000, or 17.7%, when compared to the prior fiscal year. The increase was due to a $21.5 million increase in the average balance of FHLB advances, partially offset by a 25 basis point decrease in the average rate paid on the advances.

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

The provision for loan losses was $3.2 million for fiscal 2015, compared to $1.6 million for the prior fiscal year. The increase in provision was attributed to management's analysis of the loan portfolio. The analysis noted increased balances of loans subject to allowance methodology, as acquired loan balances initially subject to purchase accounting are replaced over time. In fiscal 2015, net charge offs were $146,000, compared to $773,000 for the prior fiscal year. At June 30, 2015, classified loans totaled $14.8 million, or 1.39% of gross loans, as compared to $7.0 million, or 0.87% of gross loans, at June 30, 2014. Classified loans were comprised primarily of commercial and residential real estate. At June 30, 2015, classified loans included $4.3 million in purchased credit impaired loans obtained in the Peoples Acquisition. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial and agricultural real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2015, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income was $8.7 million for fiscal 2015, an increase of $2.5 million, or 41.2%, when compared to the prior fiscal year. The increase was attributed primarily to bank card interchange income, deposit account service charges, loan late charges, loan servicing fees and other loan fees, and gains realized on secondary market loan originations, partially offset by lower gains on sales of AFS securities. Generally, higher noninterest income levels are the result of additional deposit and loan relationships served by the Company as a result of the Fiscal 2014 Acquisitions and the Peoples Acquisition, which closed in the first quarter of fiscal 2015. Additionally, the Company is realizing benefits from a December increase in the Bank's NSF fee and the Bank's new debit card processing contract, which was entered into at the beginning fiscal 2015.

Noninterest Expense. Noninterest expense was $32.3 million for fiscal 2015, an increase of $8.6 million, or 36.5%, when compared to the prior fiscal year. In total, the increases in noninterest expense were attributable to employee compensation and benefits, occupancy, amortization of core deposit intangibles, advertising, and other expenses, partially offset by declines in legal and professional fees, and bankcard network expense. Generally, higher noninterest expense levels are the result of growth in the Company's locations and employee count, as a result of the Fiscal 2014 Acquisitions and the Peoples Acquisition, which closed in the first quarter of fiscal 2015. Fiscal 2015 results included $508,000 in merger-related charges, compared to $1.2 million in such charges recognized in fiscal 2014. Additionally, during fiscal 2014, the Company incurred a charge of $376,000 for liquidated damages resulting

from the early termination of its debit card processing contract.
Provision for Income Taxes. The Company recorded an income tax provision of $6.1 million for fiscal 2015, an increase of $2.3 million as compared to the $3.7 million expensed for fiscal 2014. The effective tax rate for fiscal 2015 was 30.7%, as compared to 27.1% for fiscal 2014. The increase in the effective tax rate was attributable

primarily to an increase in pre-tax income and average assets, without corresponding increases in tax-advantaged income and investments, as well as an increase in non-deductible expenses.

LIQUIDITY AND CAPITAL RESOURCES

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

Southern Missouri uses its liquid assets as well as other funding sources to meet ongoing commitments, to fund loan demand, to repay maturing certificates of deposit and FHLB advances, to make investments, to fund other deposit withdrawals and to meet operating expenses. At June 30, 2016, the Bank had outstanding commitments to extend credit of $163.8 million (including $104.0 million in unused lines of credit). Total commitments to originate fixed-rate loans with terms in excess of one year were $22.0 million at rates ranging from 3.25% to 10.50%, with a weighted-average rate of 4.32%. Management anticipates that current funding sources will be adequate to meet foreseeable liquidity needs.

For the year ended June 30, 2016, Southern Missouri increased deposits and FHLB advances by $65.5 million and $45.4 million, respectively, and reduced securities sold under agreements to repurchase by $247,000. During the prior year, Southern Missouri increased deposits and securities sold under agreements to repurchase by $269.4 million and $1.8 million, respectively, and reduced FHLB advances by $20.7 million. At June 30, 2016, the Bank had pledged $522.9 million of its single-family residential and commercial real estate loan portfolios to the FHLB for available credit of approximately $248.0 million, of which $109.8 million had been advanced, while none had been used for the issuance of letters of credit to secure public unit deposits. The Bank had also pledged $168.1 million of its agricultural real estate and agricultural operating and equipment loans to the Federal Reserve's discount window for available credit of approximately $112.6 million, as of June 30, 2016, none of which had been advanced. In addition, the Bank has the ability to pledge several of its other loan portfolios, including, for example, its multifamily residential real estate, home equity, or commercial business loans. In total, FHLB borrowings are generally limited to 35% of Bank assets, or approximately $468.2 million as most recently reported to the FHLB on June 30, 2016, which means that an amount up to $358.4 million may still be eligible to be borrowed from the FHLB, subject to available collateral. Along with the ability to borrow from the FHLB and Federal Reserve, management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

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

At June 30, 2016, the Bank had $245.9 million in CDs maturing within one year and $749.1 million in other deposits and securities sold under agreements to repurchase without a specified maturity, as compared to the prior year of $245.3 million in CDs maturing within one year and $680.5 million in other deposits and securities sold under agreements to repurchase without a specified maturity. Management believes that most maturing interest-bearing liabilities will be retained or replaced by new interest-bearing liabilities. Also at June 30, 2016, the Bank had $69.8 million in overnight advances from the FHLB, and $40.0 million in FHLB advances eligible for early redemption by the lender within one year.

REGULATORY CAPITAL

Federally insured financial institutions are required to maintain minimum levels of regulatory capital. Federal Reserve regulations establish capital requirements, including a tier 1 leverage (or core capital) requirement and risk-based capital requirements. The Federal Reserve is also authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

At June 30, 2016, the Bank exceeded regulatory capital requirements with tier 1 leverage, total risk-based capital, and tangible common equity capital of $128.4 million, $143.0 million and $128.4 million, respectively. The Bank's tier 1 capital represented 9.37% of total adjusted assets and 10.33% of total risk-weighted assets, while total risk-based capital was 11.50% of total risk-weighted assets, and tangible common equity capital was 10.33% of total risk-weighted assets. To be considered adequately capitalized, the Bank must maintain tier 1 leverage capital levels of at least 4.0% of adjusted total assets and 6.0% of risk-weighted assets, total risk-based capital of 8.0% of risk-weighted assets, and tangible common equity capital of 4.5%. To be considered well capitalized, the Bank must maintain tier 1 leverage capital levels of at least 5.0% of adjusted total assets and 8.0% of risk-weighted assets, total risk-based capital of 10.0% of risk-weighted assets, and tangible common equity capital of 6.5%.

At June 30, 2016, the Company exceeded regulatory capital requirements with tier 1 leverage, total risk-based capital, and tangible common equity capital of $134.1 million, $148.6 million and $119.7 million, respectively. The Company's tier 1 capital represented 9.75% of total adjusted assets and 10.79% of total risk-weighted assets, while total risk-based capital was 11.95% of total risk-weighted assets, and tangible common equity capital was 9.63% of total risk-weighted assets. To be considered adequately capitalized, the Company must maintain tier 1 leverage capital levels of at least 4.0% of adjusted total assets and 6.0% of risk-weighted assets, total risk-based capital of 8.0% of risk-weighted assets, and tangible common equity capital of 4.5%.

See Note 13 of the Notes to the Consolidated Financial Statements contained in Item 8.

IMPACT OF INFLATION

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

AVERAGE BALANCE, INTEREST AND AVERAGE YIELDS AND RATES

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

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

	Years Ended June 30,								
	2016			2015			2014		
(Dollars in thousands)	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest-earning assets:									
Mortgage loans (1)	$865,029	$41,643	4.81 %	$805,928	$40,485	5.02 %	$572,409	$28,923	5.05 %
Other loans (1)	224,930	11,207	4.98	211,907	11,030	5.20	164,912	8,629	5.23
Total net loans	1,089,959	52,850	4.85	1,017,835	51,515	5.06	737,321	37,552	5.09
Mortgage-backed securities	66,736	1,467	2.20	76,980	1,674	2.17	42,948	943	2.20
Investment securities (2)	67,885	1,965	2.83	71,814	1,996	2.78	78,064	1,951	2.50
Other interest-earning assets	10,799	35	0.32	19,103	116	0.61	7,950	25	0.31
TOTAL INTEREST-EARNING ASSETS (1)	1,235,379	56,317	4.56	1,185,732	55,301	4.66	866,283	40,471	4.67
Other noninterest-earning assets (3)	99,463	---	---	88,000	---	---	57,362	---	---
TOTAL ASSETS	$1,334,842	56,317	---	$1,273,732	55,301	---	$923,645	40,471	---
Interest-bearing liabilities:									
Savings accounts	$121,741	386	0.32	$115,751	384	0.33	$89,924	311	0.35
NOW accounts	375,355	2,746	0.73	307,928	2,391	0.78	245,915	2,103	0.86
Money market accounts	75,947	219	0.29	75,860	180	0.24	25,469	73	0.29
Certificates of deposit	399,685	4,056	1.01	408,092	3,904	0.96	304,442	3,476	1.14
TOTAL INTEREST-									