SOUTHERN MISSOURI BANCORP INC
Form 10KSB
September 28, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[**X**] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **June 30, 2004** 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 small business issuer as specified in its charter)

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

Registrant's telephone number, including area code: (573) 785-1421

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g)of the Act: **Common Stock, par value $0.01 per share**

(Title of Class)

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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-B 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-KSB or any amendments to this Form 10-KSB. __x__

The registrant's revenues for the fiscal year ended June 30, 2004 were $2.9 million.

As of September 20, 2004, there were issued and outstanding 2,226,768 shares of the registrant's common stock. The aggregate market value of the voting stock held by non-affiliates of the registrant on this date, computed by reference to the average of the bid and asked price of such stock, was $25.8 million 1,698,958 shares at $15.20. (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.)

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-KSB- Annual Report to Stockholders for the fiscal year ended June 30, 2004.

Part III of Form 10-KSB - Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders.

Transitional Small Business Disclosure Format (check one) Yes ___ No __X__

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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 National Association of Securities Dealers Automated Quotations ("NASDAQ") National Market System 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 25, 2004, Southern Missouri Bank & Trust Co. ("Bank") converted from a Missouri chartered stock savings bank to a Missouri state chartered trust company with banking powers ("Charter Conversion").

The primary regulator of the Bank is the Missouri Division of Finance. The Bank's deposits continue to be insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") 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 Federal Reserve Board ("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") 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 and other permissible investments.

At June 30, 2004, the Company had total assets of $311.9 million, total deposits of $212.0 million and stockholders' equity of $26.0 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, investment securities, MBS, CMO's and, to a lesser extent, banking service charges, loan late charges, increases in the cash surrender value of bank owned life insurance and other fee income.

Forward Looking Statements

This document, including information incorporated by reference, contains forward-looking statements about the Company and its subsidiaries which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and the intentions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;

- 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;
- the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- acquisitions;
- changes in consumer spending and saving habits; 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 and seven additional full service offices located in Poplar Bluff, Van Buren, Dexter, Kennett, Doniphan and Qulin, Missouri. The Bank's primary market area includes all or portions of Butler, Carter, Dunklin, Ripley, Stoddard, Wayne and Pemiscot Counties in Missouri and Mississippi and Clay Counties in Arkansas, with Poplar Bluff being the economic center of the area. The Bank's market area has a population of approximately 190,000. The largest employer in the Bank's primary market area is Briggs & Stratton, who operates a small engine manufacturing facility and employs approximately 1,000 persons. Other major employers include Gates Rubber, Rowe Furniture, John Pershing VA Hospital, Three Rivers Healthcare, Nordyne, Poplar Bluff School District, Twin Rivers Regional Medical Center, Emerson Electric, Tyson Foods, and Arvin. The Bank's market area is primarily rural in nature and relies heavily on agriculture, with products including livestock, rice, timber, soybeans, wheat, melons, corn and cotton.

Competition

The Bank faces intense competition attracting deposits (its primary source of lendable funds) and originating loans. Its most direct competition for savings deposits has come historically from commercial banks, other thrift institutions and credit unions located in its market area. The Bank is one of 19 financial institution groups located in its primary market area. The Bank has faced additional competition for investors' funds from short-term money market securities, other corporate and government securities and the equity markets. 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.

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Selected Consolidated Financial Information

This information is incorporated by reference from pages 9 and 10 of the 2004 Annual Report to Stockholders attached hereto as Exhibit 13 ("Annual Report").

Yields Earned and Rates Paid

This information contained under the section captioned "Yields Earned and Rates Paid" is incorporated herein by reference from page 17 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 18 of the Annual Report.

Average Balance, Interest and Average Yields and Rates

This information contained under the section captioned "Average Balance, Interest and Average Yields and Rates" is incorporated herein by reference from pages 15 and 16 of the Annual Report.

Lending Activities

General. The Bank's lending activities consists of origination of loans secured by mortgages on one- to four-family residences and commercial real estate, construction loans on residential and commercial properties, commercial business loans and consumer loans. The Bank has also occasionally purchased a limited amount of loan participation interests originated by other lenders and secured by properties generally located in the Bank's primary market area.

Supervision of the loan portfolio is the responsibility of James W. Duncan, Executive Vice President and Chairman of the Loan Department. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the Officers Loan Committee, comprised of President Steffens, Loan Chairman Duncan and Senior Commercial Lender William D. Hribovsek, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in aggregate, in excess of $500,000 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, 2004, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately $7.1 million. At June 30, 2004, the Bank's two largest extensions of credit to one entity were $6.5 million and $6.3 million, respectively. Both of these credits were commercial loans and were performing according to their terms.

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

	At June 30,					
	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent

	(Dollars in thousands)					
Type of Loan:						
Mortgage Loans:						
One-to four-family	$122,392	49.28%	$116,806	52.42%	$120,051	56.84%
Commercial real estate	56,112	22.59	48,649	21.83	43,036	20.37
Construction	7,533	3.03	3,374	1.51	3,083	1.46
Total mortgage loans	$186,037	74.90	$168,829	75.76	$166,170	78.67
Other Loans:						
Automobile loans	12,808	5.16	14,579	6.54	14,305	6.77
Second mortgage	440	0.18	649	0.29	789	0.37
Loans secured by deposits	1,062	0.43	982	0.44	697	0.33
Commercial business	45,923	18.49	37,060	16.63	29,273	13.86
Other	7,167	2.88	4,331	1.95	2,988	1.42
Total other loans	67,400	27.14	57,601	25.85	48,052	22.75
Total loans	$253,437	102.04	$226,430	101.61	$214,222	101.42
Less:						
Undisbursed loans in process	$ 3,093	(1.24)	$1,717	(0.77)	$1,414	(0.67)
Deferred fees and discounts	11	--	37	(0.02)	27	(0.01)
Allowance for loan losses	1,978	(0.80)	1,836	(0.82)	1,569	(0.74)
Net loans receivable	$248,355	100.00%	$222,840	100.00%	$211,212	100.00%
Type of Security:						
Residential real estate						
One-to four-family	$125,051	50.35%	$119,980	53.84%	$121,451	57.50%
Multi-family	1,531	0.62	1,793	0.80	1,683	0.80
Commercial real estate	51,692	20.81	41,337	18.55	37,623	17.81
Land	7,763	3.12	5,719	2.57	5,413	2.56
Loans secured by deposits	1,062	0.43	982	0.44	697	0.33
Commercial	45,923	18.49	37,060	16.63	29,273	13.86
Consumer and other	20,415	8.22	19,559	8.78	18,082	8.56
Total loans	$253,437	102.04	$226,430	101.61	$214,222	101.42

Less:

Undisbursed loans in process	3,093	(1.24)	1,717	(0.77)	1,414	(0.67)
Deferred fees and discounts	11	--	37	(0.02)	27	(0.01)
Allowance for loan losses	1,978	(0.80)	1,836	(0.82)	1,569	(0.74)
Net loans receivable	$248,355	100.00%	$222,840	100.00%	$211,212	100.00%

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

	At June 30,					
	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan:						
Fixed-Rate Loans:						
One-to four-family	$ 81,430	32.79%	$ 73,808	33.12%	$73,266	34.69%
Commercial real estate	17,963	7.23	13,438	6.03	18,708	8.86
Construction	4,733	1.91	3,174	1.42	2,962	1.40
Consumer	15,798	6.24	17,356	7.79	17,890	8.47
Commercial business	15,191	6.12	13,207	5.93	14,856	7.03
Total fixed-rate loans	135,115	54.29	120,983	54.29	127,682	60.45
Adjustable-Rate Loans:						
One-to four-family	40,962	16.49	42,998	19.30	46,785	22.14
Commercial real estate	38,149	15.36	35,211	15.80	24,328	11.52
Construction	2,800	1.13	200	0.09	121	0.06
Consumer	5,679	2.41	3,185	1.43	889	0.42
Commercial business	30,732	12.37	23,853	10.70	14,417	6.83

Total adjustable-rate loans	118,322	47.76	105,447	47.32	86,540	40.97
Total Loans	253,437	102.05	226,430	101.61	214,222	101.42
Less:						
Undisbursed loans in process	3,093	(1.25)	1,717	(0.77)	1,414	(0.67)
Net deferred loan fees	11	(0.00)	37	(0.02)	27	(0.01)
Allowance for loan loss	1,978	(0.80)	1,836	(0.82)	1,569	(0.74)
	$248,355	100.00%	$222,840	100.00%	$211,212	100.00%

One- to Four-Family 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, 2004, net mortgage loans secured by one- to four-family residences totaled $122.4 million, or 49.3% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2004, the Bank originated $11.7 million of ARM loans and $30.6 million of fixed-rate real estate loans which were secured by one- to four-family residences. Substantially all of the one- to four-family residential mortgage originations in the Bank's portfolio are located within the Bank's primary market area.

The Bank generally originates one- to four-family residential mortgage loans in amounts up to 90% of the lower of the purchase price or appraised value of residential property. For loans originated in excess of 80%, the Bank charges a 25 basis point higher rate. The majority of new residential mortgage loans originated by the Bank conform to secondary market standards. 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.

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. Most are written using secondary market guidelines. At June 30, 2004, loans with a fixed rate totaled $81.4 million.

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The Bank currently originates ARM loans, which adjust annually, after an initial period of one, three or five 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, discounted initial rates and a "CMT" or "lagging" 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, 2004, loans tied to the CMT index totaled $28.3 million.

Until 1999, most of the owner occupied residential loans originated by the Bank repriced annually at a margin of 2.50% or 2.75% over the 11th district cost of funds index or the Bank's internal cost of funds, while non-owner occupied residential loans typically repriced at a margin of 3.00% to 3.75% over these same indices. The maximum annual interest rate adjustment on these ARMs was typically limited to a 1.00% to 2.00% adjustment, while the maximum lifetime adjustment was generally limited to 5.00% to 6.00%. Generally, each of these indices are considered a "lagging" index because they adjust more slowly to changes in market interest rates than most other indices. At June 30, 2004, loans tied to these indices totaled $10.7 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. During fiscal 2004, most properties securing real estate loans made by the Bank 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.

Commercial Real Estate Lending. The Bank actively originates loans secured by commercial real estate including land (improved and unimproved), strip shopping centers, retail establishments and other businesses generally located in the Bank's primary market area. At June 30, 2004, the Bank had $56.1 million in commercial real estate loans, which represented 22.6% of net loans receivable.

Commercial real estate loans originated by the Bank generally are based on amortization schedules of up to 20 years with monthly principal and interest payments. Generally, the interest rate received on these loans adjusts at least annually after an initial period up to five years, based upon the Wall Street prime rate or the one year CMT. Current commercial real estate originations typically adjust monthly, quarterly or annually based on the Wall Street prime rate. Generally, original commercial real estate loan amounts do not exceed 75% of the lower of the appraised value or the purchase price of the secured property. 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 guaranties are required from the borrower in addition to 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, 2004, the Bank had $7.5 million, or 3.0% of net loans receivable in construction loans outstanding.

Construction loans originated by the Bank are generally secured by permanent 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 commercial real estate. At June 30, 2004, the Bank had 40 construction loans, 35 of which were secured by residential real estate, four of which were secured by commercial real estate and

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one which was secured by multi-family 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 are converted to monthly payments using amortization schedules of up to 30 years on residential and up to 20 years on commercial real estate.

Speculative construction and land development lending generally affords the Bank an opportunity to receive higher interest rates and fees with shorter terms to maturity than those obtainable from residential lending. Nevertheless, construction and land development lending is generally considered to involve a higher level of credit risk than one- to four-family residential lending due to (i) the concentration of principal among relatively few borrowers and development projects, (ii) the increased difficulty at the time the loan is made of accurately estimating building or development costs and the selling price of the finished product, (iii) the increased difficulty and costs of monitoring and disbursing funds for the loan, (iv) the higher degree of sensitivity to increases in market rates of interest and changes in local economic conditions, and (v) the increased difficulty of working out problem loans. Due in part to these risk factors, the Bank may be required from time to time to modify or extend the terms of some of these types of loans. In an effort to reduce these risks, the application process includes a submission to the Bank of accurate plans, specifications and costs of the project to be constructed. These items are also used as a basis to determine the appraised value of the subject property. Loan amounts are limited to 85% 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, 2004, the Bank's consumer loan portfolio totaled $20.4 million, or 8.22% of net loans receivable.

Direct and indirect automobile loans combined represent 62.7% of the Bank's installment loan portfolio at June 30, 2004, and totaled $12.8 million, or 5.2% of net loans receivable. Beginning in fiscal year 2002, the Bank implemented indirect lending relationships with a few automobile dealerships. Through these dealer relationships, the dealer completes the application with the consumer, then submits it to the Bank for credit approval. At June 30, 2004, the Bank had $3.5 million of indirect automobile loans in its consumer portfolio. 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, especially in the case of consumer loans, which are unsecured or are secured by rapidly depreciable or mobile assets, such as automobiles or mobile homes. 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. At June 30, 2004, the Bank also had $45.9 million in commercial business loans outstanding, or 18.5% of net loans receivable. 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.

The Bank currently offers both fixed and adjustable rate commercial business loans. At year end, the Bank had $15.2 million in fixed rate and $30.7 million of adjustable rate commercial business loans. The adjustable rate

business loans can reprice daily, monthly or annually, in accordance with the Wall Street prime rate of interest. The Bank expects to continue to maintain or increase the current percentage of commercial business loans in its total loan portfolio.

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 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.

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2004 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, which 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)		
One-to four-family	$14,147	$23,507	$15,952	$68,786	$122,392
Commercial real estate	28,717	18,704	3,433	5,258	56,112
Construction	7,533	--	--	--	7,533
Consumer	3,479	13,553	4,379	66	21,477
Commercial business	31,146	13,209	1,536	32	45,923
Total loans	$85,022	$68,973	$25,300	$74,142	$253,437

As of June 30, 2004, loans due after June 30, 2005 with fixed interest rates totaled $119.8 million, and loans due after June 30, 2005 with adjustable rates totaled $48.6 million.

Originations, Purchases and Servicing of Loans and Mortgage-Backed Securities

Generally, real estate loans are originated by the Bank's staff of salaried loan officers. Loan applications are taken and processed at each of the Bank's full-service locations. The Bank started to offer secondary market loans to customers during fiscal year 2002.

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 2004, the Bank originated $169.4 million of loans, compared to $124.8 million and $123.0 million in fiscal 2003 and 2002, respectively. Of these loans, mortgage loans originated were $80.2 million, $63.2 million and $65.3 million in fiscal 2004, 2003 and 2002, respectively.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2004, the Bank purchased $7.7 million of new loans. At June 30, 2004, loan participations totaled $12.2 million, or 4.9% of net loans receivable. All of these participations were secured by properties located in Missouri. At June 30, 2004, all of such participations were performing in accordance to their respective terms. The Bank will evaluate purchasing additional loan participations, based in part on local loan demand and portfolio growth.

In addition, the Bank has purchased MBS to complement lending activities and provide balance sheet flexibility for liquidity and asset/liability management. The Board believes that the lower yield carried by MBS is somewhat offset by the lower level of credit risk and the lower level of overhead required in connection with these assets, as compared to commercial real estate, multi-family and other types of loans. See "Mortgage-Backed Securities."

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

	Year Ended June 30,		
	2004	2003	2002
	(Dollars in thousands)		
Total mortgage loans at beginning of period	$168,829	$166,170	$149,966
Loans originated:			
One-to four-family residential	42,342	34,373	41,641
Multi-family residential and commercial real estate	30,214	23,580	18,331
Construction loans	7,621	5,252	5,284
Total loans originated	80,177	63,205	65,256
Loans purchased:			
Total loans purchased	7,690	2,748	3,871
Loans sold:			
Total loans sold	(4,100)	---	---
Mortgage loan principal repayments	(66,423)	(63,147)	(52,791)
Foreclosures	(136)	(147)	(132)
Net loan activity	17,208	2,659	16,204
Total mortgage loans at end of period	$186,037	$168,829	$166,170

Loan Commitments

The Bank issues commitments for one- to four-family residential mortgage loans and operating or working capital lines 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 $35.7 million at June 30, 2004. See Note 14 of Notes to Consolidated Financial Statements contained in the Annual Report to Stockholders.

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 send a 30-day demand notice to the customer which, if not cured or unless satisfactory arrangements have been made, will lead to foreclosure. 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, 2004.

	Loans Delinquent For:				Total Loans Delinquent 60 Daysor More	
	60-89 Days		90 Days and Over			
	Numbers	Amounts	Numbers	Amounts	Numbers	Amounts
	(Dollars in thousands)					
One-to four-family	7	$248	1	$114	8	$362
Commercial real estate	--	--	--	--	--	--
Commercial non-real estate	1	8	--	--	1	8
Other consumer	5	13	2	21	7	34
Totals	13	$269	3	$135	16	$404

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 become doubtful, and as a result, previously accrued interest income on the loan is taken out of 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.

At June 30, 2004, the Bank had one loan on which interest was not being accrued in accordance with SFAS No. 114 as amended by SFAS No. 118. The Bank would have recorded interest income of $700, $800 and $13,000 on non-accrual loans during the years ended June 30, 2004, 2003 and 2002, respectively, if such loans had been performing in accordance with their terms during such periods. Interest income of approximately $200, $400 and $1,000 was recognized on these loans for the years ending June 30, 2004, 2003 and 2002, respectively.

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The following table sets forth information with respect to the Bank's non-performing assets as of the dates indicated. At the dates indicated, the Bank had no restructured loans within the meaning of SFAS 15.

	At June 30,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Nonaccruing loans:					
One-to four-family	$ ---	$ ---	$ 96	$ ---	$ 38
Commercial real estate	---	---	28	---	185
Consumer	4	7	10	---	145
Commercial business	---	---	---	---	169
Total	$ 4	$ 7	$ 134	$ ---	$ 537
Loans 90 days past due accruing interest:					
One-to four-family	$ 114	$ 74	$ 177	$ 51	$ 26
Commercial real estate	---	---	---	336	13
Consumer	17	---	18	53	---
Commercial business	---	8	7	50	---

Total	$ 131	$ 82	$ 202	$ 490	$ 39
Total nonperforming loans	$ 135	$ 89	$ 336	$ 490	$ 576
Foreclosed assets held for sale:					
Real estate owned	$ 163	$ 217	$ 383	$1,162	$ 464
Other nonperforming assets	17	41	5	27	52
Total nonperforming assets	$ 315	$ 347	$ 724	$1,679	$1,092
Total nonperforming loans to net loans	0.05%	0.04%	0.16%	0.27%	0.42%
Total nonperforming loans to net assets	0.04%	0.03%	0.13%	0.20%	0.31%
Total nonperforming assets to total assets	0.10%	0.12%	0.27%	0.69%	0.59%

Other Loans of Concern. In addition to the non-performing assets discussed above, there was also an aggregate of $8.2 million in net book value of loans (all were commercial real estate and commercial business lending relationships) 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.

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, 2004, the Company's balance of real estate owned totaled $163,000 and included one commercial lot and two one- to four-family real estate 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

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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 FDIC and the Missouri Division of Finance, which can order the establishment of additional loss allowances.

In connection with the filing of its periodic reports with the FDIC and in accordance with its asset classification policy, the Bank regularly reviews its loan portfolio to determine whether any loans require classification in accordance with applicable regulations. On the basis of management's review of the assets of the Company, at June 30, 2004, classified assets totaled $2.2 million, or 0.87% of total assets as compared $3.7 million, or 1.3% of total assets at June 30, 2003.

The Bank has classified $2.0 million of its assets as substandard and $21,000 as doubtful. The largest classified commercial lending relationship at June 30, 2004 totaled $551,000 and was performing in accordance with its terms. In addition, the Bank had classified three other commercial lending relationships, which in the aggregate totaled $1.0 million. The other borrowing relationships were classified due to concerns over whether the property securing the Bank's loans or the borrower generated sufficient cash flow to amortize the loans in accordance with their terms.

Allowance for Loan Losses. The Bank's allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio and changes in the nature and volume of loan activity, including those loans which are being specifically monitored. Such evaluation, which includes a review of loans for which full collectibility may not be reasonably assured, considers among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an adequate provision for loan losses. These provisions for loan losses are charged against earnings in the year they are established. The Bank had an allowance for loan losses at June 30, 2004, of $2.0 million, which represented 664% of nonperforming assets as compared to of $1.8 million, which represented 528% of nonperforming assets at June 30, 2003. See Note 3 of Notes to Consolidated Financial Statements contained in the Annual Report.

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

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

	Year Ended June 30,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Allowance at beginning of period	$1,836	$1,569	$1,462	$1,277	$1,191
Recoveries					
One-to four-family	---	---	---	15	1
Commercial real estate	---	---	8	1	---

Commercial business	2	20	---	---	---
Consumer	24	42	29	37	110
Total recoveries	26	62	37	53	111
Charge offs:					
One-to four-family	39	18	24	76	29
Commercial real estate	9	---	13	51	---
Commercial business	16	20	95	191	---
Consumer	95	87	148	310	211
Total charge offs	159	125	280	628	240
Net charge offs	(133)	(63)	(243)	(575)	(129)
Acquired allowance for losses	---	---	---	250	---
Provision for loan losses	275	330	350	510	215
Balance at end of period	$1,978	$1,836	$1,569	$1,462	$1,277
Ratio of allowance to total loans outstanding at the end of the period	0.80%	0.81%	0.73%	0.79%	0.91%
Ratio of net charge offs to average loans outstanding during the period	0.06%	0.03%	0.12%	0.35%	0.10%

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

At June 30,									
2004		2003		2002		2001		2001	
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)

One-to four-family	$ 219	48.29%	$ 214	51.59%	$ 237	56.04%	$ 293	59.75%	$ 307	67.31%
Construction	60	2.97	25	1.49	24	1.44	16	1.83	21	4.05
Commercial real estate	634	22.14	546	21.49	602	20.09	657	19.89	529	16.55
Consumer	321	8.48	326	9.07	254	8.77	165	6.42	174	6.87
Commercial business	743	18.12	536	16.36	450	13.66	268	12.11	223	5.22
Unallocated	1	---	189	---	2	---	63	---	23	---
Total allowance for loan losses	$1,978	100.00%	$1,836	100.00%	$1,569	100.00%	$1,462	100.00%	$1,277	100.00%

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Investment Activities

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

The Company's investment portfolio is managed in accordance with the Bank's investment policy which was adopted by the Board of Directors of the Bank and is implemented by members of the asset/liability management committee which consists of the President and three 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. Investment purchases are identified as either held-to-maturity ("HTM") or available-for-sale ("AFS") at the time of purchase. Debt securities classified as "HTM" are reported at amortized cost only if the reporting entity has the positive intent and ability to hold these securities to maturity. The Company does not have any investment securities classified as held to maturity at June 30, 2004. Securities classified as "AFS" must be reported at fair value with unrealized gains and losses recorded as a separate component of stockholders' equity. At June 30, 2004, AFS securities totaled $40.2 million (excluding FHLB stock). For information regarding the amortized cost and market values of the Company's investments, see Note 2 of Notes to Consolidated Financial Statements contained in the Annual Report.

Presently, the Company has no derivative instruments and no outstanding hedging activities. Management does not currently intend to purchase derivative instruments or enter into hedging activities.

Investment and Other Securities. At June 30, 2004, the Company's investment securities portfolio totaled $22.4 million, or 7.2% of total assets as compared to $8.7 million, or 3.1% of total assets at June 30, 2003. During 2004, the Bank had $8.4 million in maturities, $2.9 million in sales and $25.3 million in security purchases. Of the securities that matured, $8.0 million were called for early redemption. At June 30, 2004, the investment securities portfolio included $11.3 million in U.S. government and government agency bonds and $777,000 in municipal bonds, $10.8 million of which is subject to early redemption at the option of the issuer. The remaining portfolio consists of $1.0 million in FNMA preferred stock, $3.4 million in equity securities and $2.7 million in other securities. Based on the projected maturities, the weighted average life of the investment securities portfolio at June 30, 2004, excluding the FNMA preferred stock, was 42 months.

Mortgage-Backed Securities. At June 30, 2004, MBS totaled $21.0 million, or 6.7%, of total assets as compared to $25.0 million, or 8.9%, of total assets at June 30, 2003. During fiscal 2004, the Bank had maturities of $15.7 million and had purchases of $12.1 million in MBS. At June 30, 2004, the MBS portfolio included $1.7 million in adjustable-rate MBS, $11.2 million in fixed-rate MBS and $8.0 million in fixed rate collateralized mortgage obligations (CMOs), which passed the Federal Financial Institutions Examination Council's sensitivity test. Based on recent prepayment rates, the weighted average life of the MBS and CMOs at June 30, 2004 was 30.5 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual rates of loan prepayment.

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Investment Securities Analysis

The following table sets forth the Company's investment securities AFS portfolio at carrying value and FHLB stock at the dates indicated.

	At June 30,					
	2004		2003		2002	
	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio
	(Dollars in thousands)					
U.S. government and government agencies	$11,314	58.89%	$3,662	61.20%	$ 7,080	69.75%
State and political subdivisions	777	4.04	1,304	21.79	3,070	30.25
FNMA preferred stock	1,002	5.52	1,018	17.01	---	---
Equity Securities	3,415	17.78	---	---	---	---
Other Securities	2,704	14.07	---	---	---	---
Total	$19,212	100.00%	$5,984	100.00%	$10,150	100.00%

The following table sets forth the maturities and weighted average yields of AFS debt securities in the Company's investment securities portfolio at June 30, 2004.

	Available Securities for Sale June 30, 2004		
	Amortized Cost	Book/ Estimated Market Value	Weighted Average Yield
	(Dollars in thousands)		
U.S. government, government agencies and other securities:			
Due within 1 year	$ 1,300	$ 1,300	4.25%
Due after 1 year but within 5 years	12,061	11,941	3.77
Due after 5 years but within 10 years	772	777	4.48
Total	14,133	14,018	3.85
State and political subdivisions:			
Due within 1 year	80	81	2.90
Due after 1 year but within 5 years	647	696	5.77
Due after 5 years but within 10 years	---	---	---
Total	727	777	5.45
No stated maturity:			
FNMA preferred stock	1,000	1,002	3.39
Equity securities	3,357	3,415	4.43
	4,357	4,417	4.19
Total Available for Sale	$19,217	$19,212	3.99%

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The following table sets forth certain information at June 30, 2004 regarding the dollar amount of MBS and CMOs in the Bank's portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. MBS, which have adjustable rates, are shown at amortized cost as maturing at their next repricing date.

	At June 30, 2004
	(Dollars in thousands)
Amounts due:	
Within 1 year	$ ---
After 1 year through 3 years	1,329
After 3 years through 5 years	347
After 5 years	19,691
Total	$21,367

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, 2004, which have fixed interest rates and have floating or adjustable rates.

	At June 30, 2004
	(Dollars in thousands)
Interest rate terms on amounts due after 1 year:	
Fixed	$19,649
Adjustable	1,718
Total	$21,367

The following table sets forth certain information with respect to each security (other than U.S. Government and agency securities) at the dates indicated.

	At June 30,		
	2004	2003	2002

	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
	(Dollars in thousands)					
FHLMC certificates	$ 3,634	$3,552	$ 5,979	$ 5,999	$ 1,331	$ 1,361
GNMA certificates	350	348	592	602	900	906
FNMA certificates	9,225	9,094	6,545	6,630	4,950	5,004
Collateralized mortgage obligations issued by government agencies	8,158	8,000	11,552	11,490	14,177	14,369
Collateralized mortgage obligations issued by private issuer	---	---	294	297	954	969
Total	$21,367	$20,994	$24,962	$25,018	$22,312	$22,609

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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. Substantially all of the Bank's depositors are residents of the State of Missouri or Northeast Arkansas. Deposits are attracted from within the Bank's market area through the offering of a broad selection of deposit instruments, including checking 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. In order to help manage interest rate risk exposure from increased fixed rate lending, the average maturity of deposits has been extended. Certificates of deposit with original terms of maturities over two years increased from $29.9 million at June 30, 2003 to $40.5 million at June 30, 2004.

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. The emphasis of these campaigns is to increase consumer awareness and market share of the Bank.

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The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. The Bank has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. 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.

Weighted Average Interest Rate	Term	Category	Minimum Amount	Balance	Percentage of Total Deposits
				(In thousands)	
0.00%	None	Non-interest Bearing	$ 100	$ 14,143	6.67%
	None	NOW Accounts	100	30,578	14.43
1.84	None	Savings Accounts	100	64,914	30.63
	None	Money Market Deposit Accounts	1,000	19,731	9.31
		Certificates of Deposit			
1.00%	91-day	Fixed-term/Fixed-rate	1,000	555	0.26
1.24	91-day	IRA Fixed-term/Fixed-rate	1,000	41	0.02
1.48	5 month	Fixed-term/Fixed-rate	1,000	1,281	0.60
1.64	6 month	Fixed-term/Fixed-rate	1,000	9,365	4.43
1.48	6 month	IRA Fixed-term/Fixed-rate	1,000	717	0.34
1.36	7 month	Fixed-term/Fixed-rate	1,000	449	0.21
1.52	9 month	Fixed-term/Fixed-rate	1,000	2,877	1.36
1.55	9 month	IRA Fixed-term/Fixed-rate	1,000	1,441	0.68
1.57	11 month	Fixed-term/Fixed-rate	1,000	4,043	1.91
1.57	11 month	IRA Fixed-term/Fixed-rate	1,000	852	0.40
1.62	12 month	Fixed-term/Fixed-rate	1,000	13,746	6.49

1.63	12 month	IRA Fixed-term/Fixed-rate	1,000	3,144	1.48
1.55	13 month	Fixed-term/Fixed-rate	1,000	238	0.11
1.49	14 month	Fixed-term/Fixed-rate	1,000	5	---
1.68	15 month	Fixed-term/Fixed-rate	1,000	1,285	0.61
1.61	18 month	Fixed-term/Fixed-rate	1,000	1,127	0.53
2.49	18 month	IRA Fixed-term/Fixed-rate	1,000	531	0.25
2.44	24 month	Fixed-term/Fixed-rate	1,000	4,229	2.00
2.36	24 month	IRA Fixed-term/Fixed-rate	1,000	618	0.29
1.74	24 month	Fixed-term/Variable rate	1,000	1	---
1.68	24 month	IRA Fixed-term/Variable rate	1,000	376	0.18
2.02	25 month	Fixed-term/Fixed-rate	1,000	284	0.13
2.72	29 month	Fixed-term/Fixed-rate	1,000	16	0.01
3.28	30 month	Fixed-term/Fixed-rate	1,000	453	0.21
3.94	35 month	Fixed-term/Fixed-rate	1,000	1,807	0.85
3.77	35 month	IRA Fixed-term/Fixed-rate	1,000	294	0.14
3.64	36 month	Fixed-term/Fixed-rate	1,000	12,892	6.08
3.08	36 month	IRA Fixed-term/Fixed-rate	1,000	2,954	1.39
4.10	48 month	Fixed-term/Fixed-rate	1,000	1,164	0.55
3.66	48 month	IRA Fixed-term/Fixed-rate	1,000	245	0.12
4.94	55 month	Fixed-term/Fixed-rate	1,000	5,744	2.71
4.88	55 month	Fixed-term/Fixed-rate	1,000	913	0.43
4.33	60 month	Fixed-term/Fixed-rate	1,000	6,110	2.88
4.11	60 month	IRA Fixed-term/Fixed-rate	1,000	2,718	1.28
4.00	84 month	Fixed-term/Fixed-rate	1,000	74	0.03
3.77	96 month	Fixed-term/Fixed-rate	1,000	4	---
				$211,959	100.00%

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The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2004. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are negotiable.

Maturity Period	Amount
	(Dollars in thousands)
Three months or less	$ 7,815
Over three through six months	1,938

Over six through twelve months	6,201
Over 12 months	8,024
Total	$23,978

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,		
	2004	2003	2002
	(Dollars in thousands)		
0.00 - 0.99%	$ 13	$ ---	$ ---
1.00 - 1.99%	40,381	32,138	1,087
2.00 - 2.99%	9,209	21,162	37,450
3.00 - 3.99%	14,629	10,209	14,356
4.00 - 4.99%	14,262	15,343	17,579
5.00 - 5.99%	3,834	5,854	8,882
6.00 - 6.99%	265	1,595	4,832
7.00 - 7.99%	---	---	12
8.00 - 8.99%	---	---	53
Total	$82,593	$86,301	$84,251

The following table sets forth the amount and maturities of all time deposits at June 30, 2004.

	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%	$ ---	$ 13	$ ---	$ ---	$ ---	$ 13	0.02%

1.00 - 1.99%	38,492	1,889	---	---	---	40,381	48.89
2.00 - 2.99%	4,038	1,651	3,304	192	24	9,209	11.15
3.00 - 3.99%	5,104	588	4,719	2,576	1,642	14,629	17.71
4.00 - 4.99%	5,300	1,011	6,637	1,040	274	14,262	17.27
5.00 - 5.99%	923	350	2,561	---	---	3,834	4.64
6.00 - 6.99%	62	203	---	---	---	265	0.32
Total	$53,919	$ 5,705	$17,221	$ 3,808	$ 1,940	$82,593	100.00%

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Deposit Flow

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

	At June 30,								
	2004			2003			2002		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
	(Dollars in thousands)								
Noninterest bearing	$ 14,143	6.67%	$ 1,432	$12,711	6.53%	$2,504	$ 10,207	5.40%	$ 476
NOW checking	30,578	14.43	6,581	23,997	12.34	4,520	19,477	10.31	3,497
Savings accounts	64,914	30.63	8,134	56,780	29.19	742	56,038	29.66	9,746
Money market deposit	19,731	9.31	4,988	14,743	7.58	(4,231)	18,974	10.04	(1,721)
Fixed-rate certificates which mature[1]:									
Within one year	53,757	25.36	(1,116)	54,873	28.21	(1,713)	56,586	29.95	(10,630)
Within three years	22,711	10.71	5,594	17,117	8.80	248	16,869	8.93	5,508
After three years	5,748	2.71	(8,115)	13,863	7.13	3,645	10,218	5.41	9,069
Variable-rate certificates which mature within one year	162	0.08	(112)	274	0.14	---	274	0.14	(583)
Variable-rate certificates which mature within two years	215	0.10	41	174	0.09	(130)	304	0.16	304
Total	$211,959	100.00%	$17,427	$194,532	100.00%	$ 5,585	$188,947	100.00%	$15,666

(1) At June 30, 2004, 2003 and 2002, certificates in excess of $100,000 totaled $24.0 million, $26.1 million and $20.0 million, respectively.

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

	At June 30,		
	2004	2003	2002
	(Dollars in thousands)		
Beginning Balance	$194,532	$188,947	$173,281
Net increase before interest credited	14,770	2,263	11,338
Interest credited	2,657	3,322	4,328
Net increase in savings deposits	17,427	5,585	15,666
Ending balance	$211,959	$194,532	$188,947

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 actively uses 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, 2004, the Bank had $59.3 million in FHLB advances, of which $37.0 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years, $15.0 million in borrowings, all of which had fixed rates and original maturities of three to six years and $7.3 million in short-term borrowings. In order for the Bank to borrow from the FHLB, it has pledged $71.1 million of its residential loans to the FHLB and has purchased $3.2 million in FHLB stock. At June 30, 2004, the Bank had additional borrowing capacity on its pledged residential loans from the FHLB of $32.1 million as compared to $26.4 million at June 30, 2003.

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. The securities are due in 30 years, redeemable after five years and bear interest at a floating rate based on LIBOR. 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 intends to use its net proceeds for working capital and investment in its subsidiaries. Trust Preferred Securities qualify as Tier I Capital for regulatory purposes.

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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,		
	2004	2003	2002
	(Dollars in thousands)		
Year end balances			
Short-term FHLB advances	$ 7,250	$ 5,500	$ ---
Securities sold under agreements to repurchase	6,448	5,234	4,311
Total short-term borrowings	$13,698	$10,734	$4,311
Weighted average rate at year end	1.24%	1.38%	1.75%

	Year Ended June 30,		
	2004	2003	2002
	(Dollars in thousands)		
Short term FHLB advances			
Daily average balance	$ 6,845	$ 347	$ 3

Weighted average interest rate	1.27%	1.65%	2.10%
Maximum outstanding at any month end	$12,900	$5,500	$1,000
Securities sold under agreements to repurchase			
Daily average balance	$ 6,341	$5,480	$4,122
Weighted average interest rate	1.15%	1.33%	2.13%
Maximum outstanding at any month end	$ 8,073	$7,444	$5,453
Subordinated Debt			
Daily average balance	$ 2,904	$ ---	$ ---
Weighted average interest rate	4.02%	---%	---%
Maximum outstanding at month end	$ 7,217	$ ---	$ ---

Subsidiary Activities

The Bank has one subsidiary, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2004 and is currently inactive. The activities of the subsidiary are not significant to the financial condition or results of the Bank's operations.

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REGULATION

The 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 FDIC and the Missouri Division of Finance and files periodic reports concerning the Bank's activities and financial condition with its regulators. The Bank's relationship with depositors and borrowers also is regulated to a great extent by both federal law and the laws of Missouri, especially in such matters as the ownership of savings accounts and the form and content of mortgage documents.

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

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

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.

Federal Reserve System. The Federal Reserve Board ("FRB") requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (checking, NOW and Super NOW checking accounts). At June 30, 2004, the Bank was in compliance with these reserve requirements.

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

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, which is one of 12 regional FHLBs that administers the home financing credit function of savings associations. 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 to members (*i.e.*, advances) 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 Board. 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. As a member, the Bank is required to purchase and maintain stock in the FHLB of Des Moines. At June 30, 2004, the Bank had $3.2 million in FHLB stock, which was in compliance with this requirement. The Bank is paid a quarterly dividend on this stock which averaged 2.4% in 2004.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and 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.

Deposit Insurance. The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of depository institutions. The FDIC currently maintains two separate insurance funds: the Bank Insurance Fund ("BIF") and the SAIF. As insurer of the Bank's deposits, the FDIC has examination, supervisory and enforcement authority over the Bank.

The Bank's accounts are insured by the SAIF to the maximum extent permitted by law. The Bank pays deposit insurance premiums based on a risk-based assessment system established by the FDIC. Under applicable regulations, institutions are assigned to one of three capital groups that are based solely on the level of an institution's capital -- "well capitalized," "adequately capitalized," and "undercapitalized" -- which are defined in the same manner as the regulations establishing the prompt corrective action system, as discussed below. These three groups are then divided into three subgroups, which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern. The matrix so created results in nine assessment risk classifications, with rates that until September 30, 1996 ranged from 0.23% for well capitalized, financially sound institutions with only a few minor weaknesses to 0.31% for undercapitalized institutions that pose a substantial risk of loss to the SAIF unless effective corrective action is taken.

Pursuant to the Deposit Insurance Funds Act ("DIF Act"), which was enacted on September 30, 1996, the FDIC imposed a special assessment on each depository institution with SAIF-assessable deposits, which resulted in the SAIF achieving its designated reserve ratio. In connection therewith, the FDIC reduced the assessment schedule for SAIF members, effective January 1, 1997, to a range of 0% to 0.27%, with most institutions, including the Bank, paying 0%. This assessment schedule is the same as that for the BIF, which reached its designated reserve ratio in 1995. In addition, since January 1, 1997, SAIF members are charged an assessment based on SAIF-assessable deposits for the purpose of paying interest on the obligations issued by the Financing Corporation ("FICO") in the 1980s to help fund the thrift industry cleanup. The FICO assessment is currently equal to about 1.60 basis points for each $100 in domestic deposits for SAIF and BIF insured institutions.

The DIF Act provides for the merger of the BIF and the SAIF into the Deposit Insurance Fund on January 1, 1999, but only if no insured depository institution is a savings association on that date. The DIF Act contemplates the development of a common charter for all federally chartered depository institutions and the abolition of separate charters for national banks and federal savings associations. It is not known what form the common charter may take and what effect, if any, the adoption of a new charter would have on the operation of the Bank.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the deposit insurance of the Bank.

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

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of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized;" (iii) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, has a Tier I risk-based capital ratio that is less than 4.0% or has a leverage ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, has a Tier I risk-based capital ratio that is less than 3.0% or has a leverage ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

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 or liquidity. (The FDIC may not, however, reclassify a significantly undercapitalized institution as critically undercapitalized.)

An institution generally must file a written capital restoration plan that meets specified requirements, as well as a performance guaranty by each company that controls the institution, with the appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. Immediately upon becoming undercapitalized, an institution shall become subject to various mandatory and discretionary restrictions on its operations.

At June 30, 2004, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FDIC.

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 FDIC 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. FDIC regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

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

The FDIC's capital regulations require higher capital levels for banks which exhibit more than a moderate degree of risk or exhibit other characteristics which necessitate that higher than minimum levels of capital be maintained. Any insured bank with a Tier 1 capital to total assets ratio of less than 2% is deemed to be operating in an unsafe and unsound condition pursuant to Section 8(a) of the FDIA unless the insured bank enters into a written agreement, to which the FDIC is a party, to correct its capital deficiency. Insured banks operating with Tier 1 capital levels below 2% (and which have not entered into a written agreement) are subject to an insurance removal action. Insured banks operating with lower than the prescribed minimum capital levels generally will not receive approval of applications submitted to the FDIC. Also, inadequately capitalized state nonmember banks will be subject to such administrative action as the FDIC deems necessary.

FDIC regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of total capital (which is defined as Tier 1 capital and Tier 2 or supplementary capital) to risk weighted assets of 8% and Tier 1 capital to risk-weighted assets of 4%. In determining the amount of risk-weighted

assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier 1 capital are equivalent to those discussed above under the 3% leverage requirement. The components of supplementary capital currently include cumulative perpetual preferred stock, adjustable-rate perpetual preferred stock, mandatory convertible securities, term subordinated debt, intermediate-term preferred stock and allowance for possible loan and lease losses. Allowance for possible loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of Tier 1 capital. The FDIC includes in its evaluation of a bank's capital adequacy an assessment of the exposure to declines in the economic value of the bank's capital due to changes in interest rates. However, no measurement framework for assessing the level of a bank's interest rate risk exposure has been codified. In the future, the FDIC will issue a proposed rule that would establish an explicit minimum capital charge for interest rate risk, based on the level of a bank's measured interest rate risk exposure.

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 risk...to which the institution is exposed."

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) dismiss any director or senior executive officer who held office for more than 180 days immediately before the institution became undercapitalized; (x) employ "qualified" senior executive officers; (xi) cease accepting deposits from correspondent depository institutions; (xii) divest certain non-depository affiliates which pose a danger to the institution; (xiii) be divested by a parent holding company; and (xiv) take any other action which the agency determines would better carry out the purposes of the Prompt Corrective Action provisions. See "-- Prompt Corrective Action."

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

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

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

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The table below sets forth the Bank's capital position relative to its FDIC capital requirements at June 30, 2004. The definitions of the terms used in the table are those provided in the capital regulations issued by the FDIC.

	At June 30, 2004	
	Amount	Percent of Adjusted Total Assets[1]
	(Dollars in thousands)	
Tier 1 (leverage) capital	$23,475	7.8%
Tier 1 (leverage) capital requirement[2]	12,020	4.0
Excess	$11,455	3.8%
Tier 1 risk adjusted capital	$23,475	10.9%
Tier 1 risk adjusted capital requirement	8,611	4.0
Excess	$14,864	6.9%

Total risk-based capital	$25,454	11.8%
Total risk-based capital requirement	17,222	8.0
Excess	$ 8,232	3.8%

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(1) For the Tier 1 (leverage) capital and Missouri regulatory capital calculations, percent of total average assets of $303.4 million. For the Tier 1 risk-based capital and total risk-based capital calculations, percent of total risk-weighted assets of $215.3 million.

(2) As a Missouri-chartered savings bank, the Bank is subject to the capital requirements of the FDIC and the Missouri Division of Finance. The FDIC requires state-chartered savings banks, including the Bank, to have a minimum leverage ratio of Tier 1 capital to total assets of at least 3%, provided, however, that all institutions, other than those (i) receiving the highest rating during the examination process and (ii) not anticipating any significant growth, are required to maintain a ratio of 1% to 2% above the stated minimum, with an absolute total capital to risk-weighted assets of at least 8%. The Bank has not been notified by the FDIC of any leverage capital requirement specifically applicable to it.

Loans to One Borrower. As a result of the 10(1) Election made by the Bank in connection with the Charter Conversion (see "Item 1. Description of Business - General,") the Bank remains subject to the loans to one borrower regulations applicable to federal savings associations.

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

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

Affiliate Transactions. The Company and the Bank are legal entities separate and distinct. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company (an "affiliate"), generally

limiting such transactions with the affiliate to 10% of the bank's capital and surplus and limiting all such transactions 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 restrictions 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 tie-in arrangements in connection with any extension of credit or the providing of any property or service.

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

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

The Company

The Company is a bank holding company that has elected to be treated as a financial holding company by the FRB. Financial holding companies are subject to comprehensive regulation by the FRB under the Bank Holding Company Act, and the regulations of the FRB. As a financial holding company, the Company is required to file reports with the FRB and such additional information as the FRB may require, and is subject to regular examinations by the FRB. The FRB also has extensive enforcement authority over financial holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under FRB policy, a financial holding company must serve as a source of strength for its subsidiary banks. Under this policy the FRB may require, and has required in the past, that a holding company to contribute additional capital to an undercapitalized subsidiary bank.

Under the Bank Holding Company Act, a financial 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 or financial holding company; or (iii) merging or consolidating with another bank or financial holding company.

The Bank Holding Company Act also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking.

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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 "qualifying real property loans," which are generally loans secured by certain interest in real property, were computed using an amount based on the Bank's actual loss experience, or a percentage equal to 8% of the Bank's taxable income, computed with certain modifications and reduced by the amount of any permitted additions to the non-qualifying reserve. Due to the Bank's loss experience, the Bank generally recognized a bad debt deduction equal to 8% of taxable income.

The thrift bad debt rules were revised by Congress in 1996. The new rules eliminated the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also required that all institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Bank has no post-1987 reserves subject to recapture. For taxable years beginning after December 31, 1995, the Bank's bad debt deduction is determined under the experience method using a formula based on actual bad debt experience over a period of years. The unrecaptured base year reserves will not be subject to recapture as long as the institution continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to provisions of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

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

Corporate Alternative Minimum Tax. The Internal Revenue Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. In addition, only 90% of AMTI can be offset by net operating loss carry-overs. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). For taxable years beginning after December 31, 1986, and before January 1, 1996, an environmental tax of 0.12% of the excess of AMTI (with certain modification) over $2.0 million is imposed on corporations, including the Bank, whether or not an Alternative Minimum Tax is paid.

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

Missouri-based banks, such as the Bank, are subject to a Missouri bank franchise and income tax. The Missouri bank franchise tax is based on the Bank's taxable income, however, it is reduced by its portion of the Missouri income tax.

The Missouri franchise tax is imposed on (i) the bank's taxable income at the rate of 7% of the taxable income (determined without regard for any net operating losses), less credits for all other state or local taxes, including income tax, 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 assets at a rate of .033% of total assets less deposits and the investment in greater than 50% owned subsidiaries - asset-based calculation.

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

Audits

There have not been any 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 Consolidated Financial Statements contained in the Annual Report.

Personnel

As of June 30, 2004, the Company had 82 full-time employees and 9 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.

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Item 2. Description of Properties

The following table sets forth certain information regarding the Bank's offices as of June 30, 2004.

Location	Year Opened	Building Net Book Value as of June 30, 2004	Land Owned/ Leased	Building Owned/ Leased
		(Dollars in thousands)		
Main Office				
531 Vine Street Poplar Bluff, Missouri	1966	$665	Owned	Owned
Branch Offices				
Highway 60 Van Buren, Missouri	1982	48	Owned	Owned
1330 Highway 67 Poplar Bluff, Missouri	1976	---	Leased[(1)]	Owned
Highway PP Poplar Bluff, Missouri	2001	587	Owned	Owned
Business 60 West Dexter, Missouri	1979	85	Owned	Owned
301 First Street Kennett, Missouri	1982	827	Owned	Owned
302 Washington Doniphan, Missouri	2001	638	Owned	Owned
Highway 53 Quiln, Missouri	2000	54	Owned	Owned

(1) Lease expires on November 30, 2014.

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. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended June 30, 2004.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The information contained in the section captioned "Common Stock" in the Annual Report is incorporated herein by reference.

Item 6. Management's Discussion and Analysis or Plan of Operation

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7. Financial Statements

Report From Independent Registered Accounting Firm*

(a) Consolidated Statements of Financial Condition as of June 30, 2004 and 2003*
(b) Consolidated Statements of Income for the Years Ended June 30, 2004, 2003 and 2002*
(c) Consolidated Statements of Stockholders' Equity For the Years Ended June 30, 2004, 2003 and 2002*
(d) Consolidated Statements of Cash Flows For the Years Ended June 30, 2004, 2003 and 2002*
(e) Notes to Consolidated Financial Statements*

* Contained in the Annual Report filed as an exhibit hereto and incorporated herein by reference. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

On April 2, 2004, the Company dismissed Kraft, Miles and Tatum, LLC ("KMT") as its independent accountant. The reports of KMT on the financial statements for the past two fiscal years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit committee of the board of directors made the decision to change independent accountants. In connection with its audits for the two most recent fiscal years and through April 2, 2004, there were no disagreements with KMT on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KMT would have caused KMT to make reference thereto in its report on the company's financial statements. During the two most recent fiscal years and through April 2, 2004, there were no reportable events (as set forth in Regulation S-B Item 304 (a)(1)(iv)(B)) with KMT. KMT furnished the Company with a letter addressed to the SEC stating that it agrees with the above statements. A copy of this letter was included as an exhibit to the Current Report on Form 8-K filed on April 4, 2004 announcing this decision.

On April 2, 2004, the Company engaged BKD, LLP ("BKD") as its independent accountant for the fiscal year ending June 30, 2004. During the two most recent fiscal years and through April 2, 2004, the company has engaged BKD for consulting services. The Company did not consult with BKD regarding (1) the application of accounting principles to a specific completed or proposed transaction, (2) the type of audit opinion that might be rendered on the company's financial statements or (3) the subject matter of a disagreement or reportable event with the former auditor (as set forth in Regulation S-B Item 304 (a)(1)(iv)(B)).

Item 8A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2004, was carried out under the supervision and with the participation of our Chief Executive Officer, who is also our Chief Financial Officer, and several other members of our senior management. Our Chief Executive Officer concluded that our disclosure controls and procedures

as currently in effect are effective in ensuring that the information required to be disclosed in the reports the Company files or submits under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the year ended June 30, 2004, that has materially effected, or is reasonably likely to materially affect, our internal control over financial reporting.

We intend to continually review and evaluate the design and effectiveness of the Company's disclosure controls and procedures and to improve the Company's controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While we believe the present design of the disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

Information concerning the Directors of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholder to be held in October 2004, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers

Information concerning the Executive Officers of the Company is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held in October 2004, except for information contained under the heading "Report of the Audit Committee," a copy of which will be field not later than 120 days after the close of the fiscal year.

Section 16(a) Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, file with the SEC initial reports of ownership and reports of changes in ownership of the Company's Common Stock. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge no late reports occurred during the fiscal year ended June 30, 2004. All other Section 16(a) filing requirements applicable to our executive officers, directors and greater than 10% beneficial owners were complied with.

Code of Ethics

On January 20, 2004, the Company adopted a written Code of Ethics based upon the standards set forth under Item 406 of Regulation S-B of the Securities Exchange Act. The Code of Ethics applies to all of the Company's directors, officers and employees. A copy of the Company's Code of Ethics is being filed with the SEC as Exhibit 14 to this Annual Report on Form 10-KSB.

Item 10. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held in October 2004, except for information contained under

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the heading "Report of the Audit Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held in October 2004, except for information contained under the heading "Report of the Audit Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans Approved By Security Holders	186,972	$10.24	34,000
Equity Compensation Plans Not Approved By Security Holders	---	---	---

Item 12. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is incorporated herein by reference from the definitive proxy statement for the annual meeting of shareholders to be held in October 2004, except for information contained under the heading "Report of the Audit Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 13. Exhibits, List and Reports on Form 8-K

(a) Exhibits

Regulation S-B Exhibit Number	**Document**	**Reference to Prior Filing or Exhibit Number Attached Hereto**

3(i)Certificate of Incorporation of the Registrant++3(ii)Bylaws of the Registrant++10Material contracts: (a)Registrant's 1994 Stock Option Plan*(b)Southern Missouri Savings Bank, FSB

Management Recognition and Development Plans*(c)Employment Agreements:**(i)Greg A. Steffens**(ii)James W. Duncan****(d)Director's Retirement Agreements(i)Robert A. Seifert***(ii)Thadis R. Seifert***(iv)Leonard W. Ehlers***(v)James W. Tatum***(vi)Samuel H. Smith***(vii)Sammy A. Schalk**** (viii)Ronnie D. Black****(ix)L. Douglas Bagby****

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Regulation S-B Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
	(e) Tax Sharing Agreement	***
11	Statement Regarding Computation of Per Share Earnings	11
13	2004 Annual Report to Stockholders	13
14	Code of Conduct and Ethics	14
21	Subsidiaries of the Registrant	21
23	Consent of Auditors	23
31	Rule 13a-14(a)/15d-14(a) Certifications	
32	Section 1350 Certifications	

* Filed as an exhibit to the Registrant's 1994 annual meeting proxy statement dated October 21, 1994.

** Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.

*** Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1995.

**** Filed as an exhibit to the registrant's Report on Form 10-QSB for the quarter ended December 31, 2000.

++ Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.

(b) Reports on Form 8-K

Item 14. Principal Accountant Fees and Services

Information concerning fees and services by our principal accountants is incorporated herein by reference from our definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

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SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN MISSOURI BANCORP, INC.

Date:	September 28, 2004	By:	/s/ Greg A. Steffens
			Greg A. Steffens President (*Duly Authorized Representative*)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Thadis R. Seifert	September 28, 2004
	Thadis R. Seifert Chairman of the Board of Directors	
By:	/s/ Greg A. Steffens	September 28, 2004
	Greg A. Steffens President (*Principal Executive and Financial and Accounting Officer*)	
By:	/s/ Leonard W. Ehlers	September 28, 2004
	Leonard W. Ehlers Director and Vice Chairman	
By:	/s/ Samuel H. Smith	September 28, 2004
	Samuel H. Smith	

Director and Secretary

By:	/s/ James W. Tatum	September 28, 2004
	James W. Tatum Vice President and Director	
By:	/s/ Ronnie D. Black	September 28, 2004
	Ronnie D. Black Director	
By:	/s/ L. Douglas Bagby	September 28, 2004
	L. Douglas Bagby Director	
By:	/s/ Sammy A. Schalk	September 28, 2004
	Sammy A. Schalk Director	

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Index to Exhibits

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End.