SMBC 10-K 6/30/2008

Section 1: 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
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FORM 10-K

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

For the fiscal year ended **June 30, 2008** 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) 778-1800**

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES __ NO X

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was $23.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of September 12, 2008, there were issued and outstanding 2,210,833 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K – Annual Report to Stockholders for the fiscal year ended June 30, 2008.
Part III of Form 10-K – Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

Southern Missouri Bancorp, Inc. ("Company"), which changed its state of incorporation to Missouri on April 1, 1999, was originally incorporated in Delaware on December 30, 1993 for the purpose of becoming the holding company for Southern Missouri Savings Bank upon completion of Southern Missouri Savings Bank's conversion from a state chartered mutual savings and loan association to a state chartered stock savings bank. As part of the conversion in April 1994, the Company sold 1,803,201 shares of its common stock to the public. The Company's Common Stock is quoted on the 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 4, 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 Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"). With the Bank's conversion to a trust company with banking powers, the Company became a bank holding company regulated by the 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"), and to a lesser extent, brokered deposits, to invest in one- to four-family residential mortgage loans, mortgage loans secured by commercial real estate, commercial non-mortgage business loans and consumer loans. These funds are also used to purchase mortgage-backed and related securities ("MBS"), U.S. Government Agency obligations and other permissible investments.

At June 30, 2008, the Company had total assets of $417.8 million, total deposits of $292.3 million and stockholders' equity of $30.5 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, Sikeston, and Qulin, Missouri. The Bank's primary market area includes all or portions of Butler, Carter, Dunklin, Ripley, Stoddard, Scott, Mississippi, New Madrid, Wayne, and Pemiscot Counties in Missouri, and Mississippi and Clay Counties in Arkansas. The Bank's market area has a population of approximately 200,000. The largest employers in the Bank's primary market area are the Poplar Bluff Regional Medial Center, employing approximately 1,500 persons, and Briggs & Stratton, a small engine manufacturing facility employing approximately 1,300 persons. Other major employers include Noranda Aluminum, Visiting Nurse Association, Good Humor-Breyers, Gates Rubber, John Pershing VA Hospital, Nordyne, the Poplar Bluff School District, the Missouri Delta Medical Center, Wal-Mart Stores, Mid-Continent Nail, Tyson Foods, and ArvinMeritor. The Bank's market area is primarily rural in nature and relies heavily on the manufacturing industries and agriculture, with products including livestock, rice, timber, soybeans, wheat, melons, corn and cotton.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. The Bank is one of 27 financial institution groups located in its primary market area. Competitors for deposits include commercial banks, credit unions, money market funds, and other investment alternatives, such as mutual funds, full service and discount broker-dealers, equity markets, brokerage accounts and government securities. The Bank's competition for loans comes principally from other financial institutions, mortgage banking companies, mortgage brokers and life insurance companies. The Bank expects competition to continue to increase in the future as a result of legislative, regulatory and technological changes within the financial services industry. Technological advances, for example, have lowered barriers to market entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. The Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, also has changed the competitive environment in which the Bank conducts business.

Internet Website

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

Selected Consolidated Financial Information

This information is incorporated by reference from pages 9 and 10 of the 2008 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 18 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 16 and 17 of the Annual Report.

Lending Activities

General. The Bank's lending activities consist 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 loan participation interests originated by other lenders and secured by properties generally located in the State of Missouri.

Supervision of the loan portfolio is the responsibility of William D. Hribovsek, Chief Lending Officer. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the Loan Officers Committee, comprised of President Greg Steffens and Chief Lending Officer William D. Hribovsek, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in aggregate, in excess of $750,000 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, 2008, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately $9.6 million. At June 30, 2008, the Bank's five largest extensions of credit to one entity ranged from $6.3 million to $8.6 million, net of participation interests sold. The majority of these credits were commercial, commercial real estate, or multi-family real estate loans and all of them 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,					
	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan:						
Mortgage Loans:						
Residential real estate	$ 149,340	43.53%	$ 135,288	43.35%	$ 127,205	45.28%
Commercial real estate	85,860	25.03	77,723	24.91	65,374	23.27
Construction	13,945	4.06	7,981	2.56	10,868	3.87
Total mortgage loans	$ 249,145	72.62	$ 220,992	70.82	$ 203,447	72.42
Other Loans:						
Automobile loans	8,872	2.59	9,462	3.03	10,428	3.71
Commercial business	81,575	23.78	76,053	24.37	65,109	23.18
Home equity	8,213	2.39	6,548	2.10	7,007	2.49
Other	4,439	1.29	3,407	1.09	2,671	0.95
Total other loans	103,099	30.05	95,470	30.59	85,215	30.33
Total loans	$ 352,244	102.67	$ 316,462	101.41	$ 288,662	102.75
Less:						
Undisbursed loans in process	$ 5,668	1.65	$ 1,913	0.61	$ 5,738	2.04
Deferred fees and discounts	(61)	(0.02)	(52)	(0.02)	(65)	(0.02)
Allowance for loan losses	3,567	1.04	2,538	0.81	2,058	0.73
Net loans receivable	$ 343,070	100.00%	$ 312,063	100.00%	$ 280,931	100.00%
Type of Security:						
Residential real estate						
One-to four-family	$ 154,403	45.01%	$ 137,289	43.99%	$ 134,111	47.74%
Multi-family	22,971	6.70	6,205	1.99	1,571	0.56
Commercial real estate	58,365	17.01	63,139	20.23	54,544	19.41
Land	24,891	7.26	16,187	5.19	14,177	5.04
Commercial	68,379	19.93	74,226	23.79	64,153	22.84
Consumer and other	23,235	6.77	19,416	6.22	20,106	7.16
Total loans	$ 352,244	102.67	$ 316,462	101.41	$ 288,662	102.75
Less:						
Undisbursed loans in process	$ 5,668	1.65	$ 1,913	2.04	$ 5,738	2.04
Deferred fees and discounts	(61)	(0.02)	(52)	(0.02)	(65)	(0.02)
Allowance for loan losses	3,567	1.04	2,538	0.81	2,058	0.73
Net loans receivable	$ 343,070	100.00%	$ 312,063	100.00%	$ 280,931	100.00%

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

	At June 30,					
	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan:						
Fixed-Rate Loans:						
Residential real estate	$ 108,052	31.50%	$ 97,922	31.38%	$ 88,261	31.42%
Commercial real estate	63,983	18.65	46,410	14.87	25,667	9.13
Construction	13,005	3.79	5,329	1.71	6,536	2.33
Consumer	13,280	3.87	12,821	4.11	13,059	4.65
Commercial business	59,796	17.43	40,167	12.87	25,315	9.01
Total fixed-rate loans	258,116	75.24	202,649	64.94	158,838	56.54
Adjustable-Rate Loans:						
Residential real estate	41,288	12.03	37,366	11.98	38,944	13.86
Commercial real estate	21,877	6.38	31,313	10.03	39,706	14.13
Construction	940	0.27	2,652	0.85	4,333	1.54
Consumer	8,244	2.40	6,595	2.11	7,047	2.51
Commercial business	21,779	6.35	35,887	11.50	39,794	14.17
Total adjustable-rate loans	94,128	27.43	113,813	36.47	129,824	46.21
Total Loans	352,244	102.67	316,462	101.41	288,662	102.75
Less:						
Undisbursed loans in process	5,668	1.65	1,913	0.61	5,738	2.04
Net deferred loan fees	(61)	(0.02)	(52)	(0.02)	(65)	(0.02)
Allowance for loan loss	3,567	1.04	2,538	0.81	2,058	0.73
Net loans receivable	$ 343,070	100.00%	$ 312,063	100.00%	$ 280,931	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, 2008, net mortgage loans secured by one- to four-family residences totaled $136.7 million, or 39.9% of net loans receivable.

The Bank currently offers both fixed-rate and adjustable-rate mortgage ("ARM") loans. During the year ended June 30, 2008, the Bank originated $9.9 million of ARM loans and $22.0 million of fixed-rate loans that 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 an additional 37.5 basis points, but does not require private mortgage insurance. 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, but typically are repaid over shorter periods.

Fixed-rate loans secured by one- to four-family residences have contractual maturities up to 30 years, and are generally fully amortizing with payments due monthly. These loans normally remain outstanding for a substantially shorter period of time because of refinancing and other prepayments. A significant change in the interest rate environment can alter the average life of a residential loan portfolio. The one- to four-family fixed-rate loans do not contain prepayment penalties. Most are written using secondary market guidelines. At June 30, 2008, one- to four-family loans with a fixed rate totaled $98.6 million, and had a weighted-average maturity of 207 months.

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" 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, 2008, loans tied to the CMT index totaled $35.1 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, 2008, loans tied to these indices totaled $3.3 million.

In underwriting one- to four-family residential real estate loans, the Bank evaluates the borrower's ability to meet debt service requirements at current as well as fully indexed rates for ARM loans, as well as the value of the property securing the loan. During fiscal 2008, 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, 2008, the Bank had $85.9 million in commercial real estate loans, which represented 25.0% 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 is fixed for a maturity for up to five years, with a balloon payment due at maturity. Alternatively, for some loans, the interest rate adjusts at least annually after an initial period up to five years, based upon the Wall Street prime rate or the one year CMT. The Bank's fixed-rate commercial real estate portfolio has a weighted average maturity of 34.7 months. Variable rate commercial real estate originations typically adjust daily, monthly, quarterly or annually based on the Wall Street prime rate. Generally, improved commercial real estate loan amounts do not exceed 80% of the lower of the appraised value or the purchase price of the secured property. Before credit is extended, the Bank analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property and the value of the property itself. Generally, personal guarantees are obtained from the borrower in addition to obtaining the secured property as collateral for such loans. The Bank also generally requires appraisals on properties securing commercial real estate to be performed by a Board-approved independent certified fee appraiser.

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

Construction Lending. The Bank originates real estate loans secured by property or land that is under construction or development. At June 30, 2008, the Bank had $13.9 million, or 4.1% 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, 2008, the Bank had $13.9 million in construction loans, $5.6 million of which were secured by one - to four-family residential real estate (of which $2.1 million was for speculative construction), $1.6 million of which were secured by commercial real estate and $5.7 million of which were secured by multi-family real estate. An additional $1.0 million is secured by an assignment of a lease agreement between the borrower/builder and a local government entity. The Bank's increase in construction loans is primarily due to one multi-family development with an outstanding balance of $1.6 million and undisbursed commitments of $3.4 million. 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, 2008, the Bank's consumer loan portfolio totaled $21.5 million, or 6.3% of net loans receivable.

Home equity loans represented 38.2% of the Bank's consumer loan portfolio at June 30, 2008, and totaled $8.2 million, or 2.4% of net loans receivable.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are issued up to 100% of the appraised or assessed value of the property securing the line of credit, less the outstanding balance on the first mortgage. Interest rates on the HELOCs are adjustable and are tied to the current prime interest rate. This rate is obtained from the Wall Street Journal and adjusts on a daily basis. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity. HELOCs, which are secured by residential properties, are secured by stronger collateral than automobile loans and because of the adjustable rate structure, contain less interest rate risk to the Bank. Lending up to 100% of the value of the property presents greater credit risk to the Bank. Consequently, the Bank limits this product to customers with a favorable credit history. At June 30, 2008, lines of credit up to 80% of the property value represented 77.6% of outstanding balances, and 79.0% of balances and commitments; lines of credit for more than 80%, but not exceeding 90%, of the property value represented 20.2% of outstanding balances and 19.5% of balances and commitments; and lines of credit in excess of 90% of the property value represented 2.2% of outstanding balances and 1.5% of balances and commitments.

Automobile loans represented 41.2% of the Bank's consumer loan portfolio at June 30, 2008, and totaled $8.9 million, or 2.6% of net loans receivable. Of that total, $716,000 represented loans originated by auto dealers. These loans generally pay a negotiated fee back to the dealer. Typically, automobile loans are

made for terms of up to 60 months for new and used vehicles. Loans secured by automobiles have fixed rates and are generally made in amounts up to 100% of the purchase price of the vehicle.

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

Consumer loans may entail greater credit risk than do residential mortgage loans, because they are generally unsecured or are secured by rapidly depreciable or mobile assets, such as automobiles 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, 2008, the Bank also had $81.6 million in commercial business loans outstanding, or 23.8% 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 $59.8 million in fixed rate and $21.8 million of adjustable rate commercial business loans. The adjustable rate business loans typically reprice daily, monthly, quarterly, or annually, in accordance with the Wall Street prime rate of interest. The Bank 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.

Contractual Obligations and Commitments, Including Off-Balance Sheet Arrangements. The following table discloses our fixed and determinable contractual obligations and commercial commitments by payment date as of June 30, 2008. Commitments to extend credit totaled $51.5 million at June 30, 2008.

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
			(In Thousands)		
Federal Home Loan Bank advances	$ 5,550	$ 34,000	$ 6,000	$ 18,500	$ 64,050
Certificates of deposit	130,025	13,457	6,876	---	150,358
Total	$ 135,575	$ 47,457	$ 12,867	$ 18,500	$ 214,408

	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years	Total
			(In Thousands)		
Construction loans in process	$ 5,668	$ ---	$ ---	$ ---	$ 5,668
Other commitments	39,493	607	876	4,864	45,840
	$ 45,161	$ 607	$ 876	$ 4,864	$ 51,508

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2008 regarding the dollar amount of loans maturing or repricing in the Bank's portfolio based on their contractual terms to maturity or repricing, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Mortgage loans that have adjustable rates are shown as maturing at their next repricing date. Listed loan balances are shown before deductions for undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total
			(In thousands)		
Residential real estate	$ 27,781	$ 26,194	$ 15,373	$ 79,992	$ 149,340
Commercial real estate	40,021	39,101	3,585	3,152	85,859
Construction	13,622	323	---	---	13,945
Consumer	6,223	10,744	4,558	---	21,525
Commercial business	49,874	30,721	448	532	81,575
Total loans	$ 137,521	$ 107,083	$ 23,964	$ 83,676	$ 352,244

As of June 30, 2008, loans with a maturity date after June 30, 2009 with fixed interest rates totaled $182.5 million, and loans with a maturity date after June 30, 2009 with adjustable rates totaled $84.2 million.

Loan Originations, Sales and Purchases

Generally, all loans are originated by the Bank's staff, who are salaried loan officers. Loan applications are taken and processed at each of the Bank's full-service locations. The Bank began offering secondary market loans, which are also originated by the Bank’s staff, 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 2008, the Bank originated

$123.6 million of loans, compared to $130.9 million and $120.0 million in fiscal 2007 and 2006, respectively. Of these loans, mortgage loan originations were $82.2 million, $77.8 million and $74.0 million in fiscal 2008, 2007 and 2006, respectively.

From time to time, the Bank has purchased loan participations consistent with its loan underwriting standards. In fiscal 2008, the Bank purchased $17.7 million of new loans. At June 30, 2008, loan participations totaled $28.9 million, or 8.4% of net loans receivable. At June 30, 2008, all of these participations were performing in accordance to their respective terms. The Bank will evaluate purchasing additional loan participations, based in part on local loan demand, liquidity, portfolio and leverage rate.

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

	Year Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Total loans at beginning of period	$ 316,462	$ 288,662	$ 273,174
Loans originated:			
One-to four-family residential	31,879	29,935	31,079
Multi-family residential and commercial real estate	39,518	36,976	32,754
Construction loans	10,815	10,887	10,143
Commercial and industrial	25,350	38,342	36,265
Consumer and others	16,065	14,803	9,728
Total loans originated	123,627	130,943	119,969
Loans purchased:			
Total loans purchased	17,725	14,220	4,118
Loans sold:			
Total loans sold	(4,566)	(10,599)	(5,184)
Principal repayments	(90,425)	(98,655)	(97,141)
Participation principal repayments	(9,925)	(7,820)	(6,018)
Foreclosures	(654)	(289)	(256)
Net loan activity	35,782	27,800	15,488
Total loans at end of period	$ 352,244	$ 316,462	$ 288,662

Loan Commitments

The Bank issues commitments for one- to four-family residential mortgage loans, 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 and standby letters-of-credit. The Bank had outstanding net loan commitments of approximately $51.5 million at June 30, 2008. See Note 13 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, 2008.

	Loans Delinquent For:				Total Loans Delinquent 60 Days or More	
	60-89 Days		90 Days and Over			
	Numbers	Amounts	Numbers	Amounts	Numbers	Amounts
	(Dollars in thousands)					
Residential real estate	13	$ 770	---	$ ---	13	$ 770
Commercial real estate	2	211	---	---	2	211
Commercial non-real estate	1	---	---	---	1	---
Other consumer	6	16	2	6	8	22
Totals	22	$ 997	2	$ 6	24	$ 1,003

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 removed from current income. The Bank has no reserves for uncollected interest and does not accrue interest on non-accrual loans. A loan may be transferred back to accrual status once a satisfactory repayment history has been restored. Foreclosed assets held for sale include assets acquired in settlement of loans and are shown net of reserves.

At June 30, 2008, 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 a nominal amount of interest income during the years ended June 30, 2008 and 2007, and 2006, on non-accrual loans, if these loans had been performing in accordance with their terms during such periods. Interest income recognized on non-accrual loans for the years ended June 30, 2008, 2007, and 2006, was considered nominal.

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,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Nonaccruing loans:					
Residential real estate	$ ---	$ ---	$ ---	$ 52	$ ---
Commercial real estate	---	---	--	---	---
Consumer	---	2	51	41	4
Commercial business	---	---	---	334	---
Total	---	$ 2	$ 51	$ 427	$ 4
Loans 90 days past due accruing interest:					
Residential real estate	$ ---	$ ---	$ ---	$ 78	$ 114
Commercial real estate	---	20	--	---	---
Consumer	6	4	2	6	17
Commercial business	---	---	---	60	---
Total	$ 6	$ 24	$ 2	$ 144	$ 131
Total nonperforming loans	$ 6	$ 26	$ 53	$ 571	$ 135
Foreclosed assets held for sale:					
Real estate owned	$ 38	$ 111	$ 200	$ 87	$ 163
Other nonperforming assets	24	11	16	7	17
Total nonperforming assets	$ 68	$ 148	$ 269	$ 665	$ 315
Total nonperforming loans to net loans	0.00%	0.01%	0.02%	0.21%	0.05%
Total nonperforming loans to net assets	0.00%	0.01%	0.02%	0.17%	0.04%
Total nonperforming assets to total assets	0.02%	0.04%	0.08%	0.20%	0.10%

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, 2008, the Company's balance of real estate owned totaled $38,000 and included two residential properties.

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

allowances is subject to review by the FDIC and the Missouri Division of Finance, which can order the establishment of additional loss allowances.

On the basis of management's review of the assets of the Company, at June 30, 2008, classified assets totaled $4.5 million, or 1.07% of total assets as compared $1.1 million, or 0.30% of total assets at June 30, 2007. The full amount classified as of June 30, 2008, was considered substandard. At June 30, 2008, one loan relationship with outstanding classified balances of $3.5 million, secured by commercial and agricultural real estate, was classified due to concerns regarding the borrower's ability to generate sufficient cash flows to service the debt. The relationship was performing in accordance with its terms at June 30, 2008. Three additional, commercial lending relationships, which in the aggregate totaled $1.0 million, were classified due to the same reason, and were also performing in accordance with terms at June 30, 2008.

Other Loans of Concern. In addition to the non-performing assets discussed above, there was also an aggregate of $86,000 in loans (most were commercial real estate 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.

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, 2008, of $3.6 million, which represented 5,305% of nonperforming assets as compared to an allowance of $2.5 million, which represented 1,712% of nonperforming assets at June 30, 2007. See "Item 3. Legal Proceedings" for a discussion of the fiscal 2005 impact on the Bank of allegedly fraudulent actions by a significant borrower.

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

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

	Year Ended June 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Allowance at beginning of period	$ 2,538	$ 2,058	$ 2,016	$ 1,978	$ 1,836
Recoveries					
Residential real estate	1	1	---	5	---
Commercial real estate	---	---	---	---	---
Commercial business	168	22	11	---	2
Consumer	14	15	54	39	24
Total recoveries	183	38	65	44	26
Charge offs:					
Residential real estate	34	83	57	7	39
Commercial real estate	---	---	---	---	9
Commercial business	5	24	374	4,687	16
Consumer	55	56	147	127	95
Total charge offs	94	163	578	4,821	159
Net recoveries (charge offs)	89	(125)	(513)	(4,777)	(133)
Provision for loan losses	940	605	555	4,815	275
Balance at end of period	$ 3,567	$ 2,538	$ 2,058	$ 2,016	$ 1,978
Ratio of allowance to total loans outstanding at the end of the period	1.03%	0.81%	0.73%	0.75%	0.80%
Ratio of net charge offs to average loans outstanding during the period	(0.03)%	0.09%	0.19%	1.84%	0.06%

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

	At June 30,									
	2008		2007		2006		2005		2004	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Residential real estate	$ 626	42.40%	$ 279	42.98%	$ 205	44.07%	$ 225	46.04%	$ 219	48.29%
Construction	88	3.96	70	2.52	81	3.76	67	3.13	60	2.97
Commercial real estate	969	24.37	774	24.49	619	22.65	595	21.28	634	22.14
Consumer	333	6.11	256	6.10	293	6.97	306	7.84	321	8.48
Commercial business	1,320	23.16	935	23.91	857	22.55	770	21.71	743	18.12
Unallocated	231	---	234	---	3	---	53	---	1	---
Total allowance for loan losses	$ 3,567	100.00%	$ 2,538	100.00%	$ 2,058	100.00%	$ 2,016	100.00%	$ 1,978	100.00%

Investment Activities

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

The Company's investment portfolio is managed in accordance with the Bank's investment policy which was adopted by the Board of Directors of the Bank and is implemented by members of the asset/liability management committee which consists of the President, the CFO, the COO 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. All investment purchases are identified as available-for-sale ("AFS") at the time of purchase. The Company has not classified any investment securities as hold-to-maturity over the last five years. Securities classified as "AFS" must be reported at fair value with unrealized gains and losses recorded as a separate component of stockholders' equity. At June 30, 2008, AFS securities totaled $39.9 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 high risk derivative instruments and no outstanding hedging activities. Management has reviewed potential uses for derivative instruments and hedging activities, but has no immediate plans to employ these tools.

Investment and Other Securities. At June 30, 2008, the Company's investment securities portfolio totaled $15.2 million, or 3.6% of total assets as compared to $27.2 million, or 7.2% of total assets at June 30, 2007. During 2008, the Bank had $20.0 million in maturities and $8.3 million in security purchases. Of the securities that matured, $11.3 million was called for early redemption. At June 30, 2008, the investment securities portfolio included $4.0 million in U.S. government and government agency bonds and $6.0 million in municipal bonds, $5.2 million of which are subject to early redemption at the option of the issuer. The remaining portfolio consists of $3.3 million in FHLB stock, $1.6 million in trust preferred collateralized debt obligations, and $0.3 million in FHLMC preferred stock. On September 15, 2008, subsequent to the fiscal year end, the Company announced that, based on the placement of the FHLMC into conservatorship by the U.S. Treasury Department and the coinciding indefinite suspension of dividend payments on its preferred stock obligations, its holdings of FHLMC preferred stock were considered other-than-temporarily impaired. The Company's announcement indicated that it expected a pre-tax impairment charge of approximately $300,000 to be recorded during the quarter ending September 30, 2008. See the September 15, 2008, 8-K filing for more information. Based on the projected maturities, the weighted average life of the investment securities portfolio at June 30, 2008, excluding the FHLB stock, was 116 months.

Mortgage-Backed Securities. At June 30, 2008, MBS totaled $28.0 million, or 6.7%, of total assets as compared to $10.7 million, or 2.8%, of total assets at June 30, 2007. During fiscal 2008, the Bank had maturities and prepayments of $4.7 million and had purchases of $22.1 million in MBS. At June 30, 2008, the MBS portfolio included $276,000 in adjustable-rate MBS, $23.8 million in fixed-rate MBS and $4.0 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, 2008 was 52 months. Prepayment rates may cause the anticipated average life of MBS portfolio to extend or shorten based upon actual prepayment rates.

Investment Securities Analysis

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

	At June 30,					
	2008		2007		2006	
	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
	(Dollars in thousands)					
U.S. government and government agencies	$ 4,019	26.39%	$ 21,484	78.91%	$ 20,164	75.80%
State and political subdivisions	6,031	39.59	2,016	7.40	850	3.19
FNMA preferred stock	---	---	---	---	1,000	3.76
FHLMC preferred stock	295	1.94	---	---	---	---
FHLB stock	3,324	21.82	3,071	11.28	2,641	9.93
Other securities	1,563	10.26	656	2.41	1,948	7.32
Total	$ 15,232	100.00%	$ 27,232	100.00%	$ 26,603	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, 2008.

	Available for Sale Securities June 30, 2008		
	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)		
U.S. government, government agencies and other securities:			
Due within 1 year	$ ---	$ ---	---%
Due after 1 year but within 5 years	1,301	1,324	5.81
Due after 5 years but within 10 years	2,996	2,990	5.43
Due over 10 years	1,889	1,563	4.07
Total	6,186	5,877	5.09
State and political subdivisions:			
Due within 1 year	250	254	6.08
Due after 1 year but within 5 years	336	339	3.63
Due after 5 years but within 10 years	---	---	---
Due over 10 years	5,714	5,438	3.36
Total	6,300	6,031	3.48
No stated maturity:			
FHLB stock	3,324	3,324	4.00
Total Available for Sale	$ 15,810	$ 15,232	4.22%

The following table sets forth certain information at June 30, 2008 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 that have adjustable rates are shown at amortized cost as maturing at their next repricing date.

	At June 30, 2008
	(In thousands)
Amounts due:	
Within 1 year	$ 278
After 1 year through 3 years	---
After 3 years through 5 years	776
After 5 years	27,370
Total	$ 28,424

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, 2008, which have fixed interest rates and have floating or adjustable rates.

	At June 30, 2008
	(In thousands)
Interest rate terms on amounts due after 1 year:	
Fixed	$ 28,146
Adjustable	---
Total	$ 28,146

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,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
FHLMC certificates	$ 13,114	$ 12,825	$ 1,229	$ 1,183	$ 1,854	$ 1,771
GNMA certificates	128	127	156	156	194	192
FNMA certificates	11,247	11,093	4,387	4,213	5,624	5,335
Collateralized mortgage obligations issued by government agencies	3,935	3,961	5,274	5,171	7,351	7,142
Total	$ 28,424	$ 28,006	$ 11,051	$ 10,723	$ 15,023	$ 14,440

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 and entities located in 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.

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.

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. The table on the following page depicts the composition of the Bank’s deposits at June 30, 2008:

Weighted Average Interest Rate at 6/30	Term	Category	Minimum Amount	Balance	Percentage of Total Deposits
				(In thousands)	
0.00%	None	Non-interest Bearing	$ 100	$ 19,221	6.58%
1.17	None	NOW Accounts	100	37,150	12.71
2.22	None	Savings Accounts	100	73,423	25.12
1.63	None	Money Market Deposit Accounts	1,000	12,105	4.14
		Certificates of Deposit			
3.12	Less than 6 months	Fixed Rate/Term	1,000	12,657	4.33
2.76	Less than 6 months	IRA Fixed Rate/Term	1,000	789	0.27
3.41	7-12 months	Fixed Rate/Term	1,000	86,723	29.67
3.77	7-12 months	IRA Fixed Rate/Term	1,000	10,416	3.56
3.65	13-24 months	Fixed Rate/Term	1,000	18,402	6.30
3.39	13-24 months	IRA Fixed Rate/Term	1,000	2,733	0.94
1.86	13-24 months	IRA Variable Rate/Fixed Term	1,000	282	0.10
3.82	25-36 months	Fixed Rate/Term	1,000	4,701	1.61
3.88	25-36 months	IRA Fixed Rate/Term	1,000	2,286	0.78
4.35	48 months and more	Fixed Rate/Term	1,000	8,734	2.99
4.24	48 months and more	IRA Fixed Rate/Term	1,000	2,635	0.90
				$ 292,257	100.00%

The following table indicates the amount of the Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2008. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are negotiable.

Maturity Period	Amount
	(In thousands)
Three months or less	$ 21,445
Over three through six months	15,876
Over six through twelve months	14,909
Over 12 months	5,950
Total	$ 58,180

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,		
	2008	2007	2006
		(In thousands)	
1.00 - 1.99%	$ 7,135	$ ---	$ ---
2.00 - 2.99%	33,105	1,087	9,475
3.00 - 3.99%	50,555	6,558	56,044
4.00 - 4.99%	48,414	27,805	49,635
5.00 - 5.99%	11,149	95,119	10,435
Total	$ 150,358	$ 130,569	$ 125,589

The following table sets forth the amount and maturities of all time deposits at June 30, 2008.

	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)			
1.00 – 1.99%	$ 6,996	$ 139	$ ---	$ ---	$ ---	$ 7,135	4.75%
2.00 - 2.99%	30,923	2,160	14	8	---	33,105	22.02
3.00 - 3.99%	43,463	1,917	3,443	79	1,653	50,555	33.62
4.00 - 4.99%	38,898	3,664	2,007	1,835	2,010	48,414	32.20
5.00 - 5.99%	9,745	30	83	797	494	11,149	7.41
Total	$ 130,025	$ 7,910	$ 5,547	$ 2,719	$ 4,157	$ 150,358	100.00%

Deposit Flow

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

	At June 30,								
	2008			2007			2006		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
	(Dollars in thousands)								
Noninterest bearing	$ 19,221	6.58%	(3,055)	$ 22,276	8.25%	$ 3,566	$ 18,710	7.25%	$ 3,052
NOW checking	37,150	12.71	6,027	31,123	11.52	86	31,037	12.03	2,066
Savings accounts	73,423	25.12	(5,485)	78,908	29.22	5,083	73,825	28.61	8,275
Money market deposit	12,105	4.14	4,893	7,212	2.67	(1,646)	8,908	3.45	(5,652)
Fixed-rate certificates which mature(1):									
Within one year	129,881	44.44	12,976	116,905	43.28	3,953	112,952	43.77	52,447
Within three years	13,318	4.56	4,565	8,753	3.24	(1,247)	10,000	3.87	(25,214)
After three years	6,876	2.35	2,282	4,594	1.70	2,271	2,323	0.90	(1,542)
Variable-rate certificates which mature within one year	144	0.05	(33)	177	0.07	84	148	0.06	(54)
Variable-rate certificates which mature within two years	139	0.05	(1)	140	0.05	(26)	166	0.06	25
Total	$ 292,257	100.00%	22,169	$ 270,088	100.00%	$ 12,019	$ 258,069	100.00%	$ 33,403

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(1) At June 30, 2008, 2007 and 2006, certificates in excess of $100,000 totaled $58.2 million, $41.4 million and $47.5 million, respectively.

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

	At June 30,		
	2008	2007	2006
		(In thousands)	
Beginning Balance	$ 270,088	$ 258,069	$ 224,666
Net increase before interest credited	14,355	4,198	27,511
Interest credited	7,814	7,821	5,892
Net increase in deposits	22,169	12,019	33,403
Ending balance	$ 292,257	$ 270,088	$ 258,069

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, 2008, the Bank had $64.1 million in FHLB advances, of which $49.5 million had an original term of ten years, subject to early redemption by the FHLB after an initial period of one to five years, $9.0 million in borrowings, all of which had fixed rates and original maturities of five to seven years, and $5.6 million in short-term borrowings. In order for the Bank to borrow from the FHLB, it has pledged $131.3 million of its residential loans to the FHLB and has purchased $3.3 million in FHLB stock. At June 30, 2008, the Bank had additional borrowing capacity on its pledged residential loans from the FHLB of $37.4 million as compared to $42.4 million at June 30, 2007.

Southern Missouri Statutory Trust I, a Delaware business trust subsidiary of the Company, issued $7.0 million in Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of $1,000 per share in March, 2004. The securities are due in 30 years, 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 is using the net proceeds for working capital and investment in its subsidiaries. Trust Preferred Securities qualify as Tier I Capital for regulatory purposes.

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,		
	2008	2007	2006
		(Dollars in thousands)	
Year end balances			
Short-term FHLB advances	$ 5,550	$ 7,000	$ ---
Securities sold under agreements to repurchase	21,804	17,758	11,296
Total short-term borrowings	$ 27,354	$ 24,758	$ 11,296
Weighted average rate at year end	1.90%	5.06%	4.69%

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

	Year Ended June 30,		
	2008	2007	2006
		(Dollars in thousands)	
FHLB advances			
Daily average balance	$ 58,526	$ 62,906	$ 54,642
Weighted average interest rate	5.25%	5.40%	5.28%
Maximum outstanding at any month end	$ 65,600	$ 71,150	$ 67,750
Securities sold under agreements to repurchase			
Daily average balance	$ 20,567	$ 11,863	$ 10,420
Weighted average interest rate	3.31%	4.84%	3.84%
Maximum outstanding at any month end	$ 24,659	$ 17,758	$ 12,589
Subordinated Debt			
Daily average balance	$ 7,217	$ 7,217	$ 7,217
Weighted average interest rate	7.47%	8.24%	7.10%
Maximum outstanding at month end	$ 7,217	$ 7,217	$ 7,217

Subsidiary Activities

The Bank has one subsidiary, SMS Financial Services, Inc., which had no assets or liabilities at June 30, 2008 and is currently inactive. The activities of the subsidiary are not significant to the financial condition or results of the Bank's operations.

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, 2008, 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 financial institutions. 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, 2008, the Bank had $3.3 million in

FHLB stock, which was in compliance with this requirement. The Bank is paid a quarterly dividend on this stock which averaged 4.31% in 2008.

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 through the DIF. 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 DIF 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.

Prior to the Federal Deposit Insurance Reform Act of 2005, the Bank participated in the Savings Association Insurance Fund ("SAIF"). 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 has been the same as that for the Bank Insurance Fund ("BIF"), which reached its designated reserve ratio in 1995. In addition, since January 1, 1997, DIF members are charged an assessment based on DIF-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 institutions that were insured through the BIF and SAIF.

Under the Federal Deposit Insurance Reform Act of 2005, the FDIC promulgated new regulations on risk-based deposit insurance assessments. The FDIC created four Risk Categories. Risk Category I applies to institutions that are well capitalized and have composite CAMELS ratings of 1 or 2. CAMELS is an acronym for the six supervisory ratings assigned in examinations for an institution's capital adequacy, asset quality, management, earnings, liquidity and sensitivity to market risk. Annual base rate assessments for Risk Category I will range between 2 and 4 basis points, applied to an institution's assessment base, which is generally its deposits. Within Risk Category I, the precise base rate for an institution will be determined for an institution with less than $10 billion in assets by a formula using the institution's CAMELS ratings, certain financial ratios and other factors. The Federal Deposit Insurance Corporation has stated that currently, 95% of institutions it insures will be in Risk Category I. Risk Categories II, III and IV would apply to institutions with progressively greater risk of loss to the deposit insurance fund. The proposed base rates for these categories will be 7, 25 and 40 basis points, respectively. The FDIC has authority to increase the base assessment rates by up to 3 basis points without new regulations. The bank anticipates increased deposit insurance assessments in FY 2009 as the one-time credit provided based on previous assessments has been depleted and the fund falls below targeted ratios due to the failure of insured depositories.

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 Federal Deposit Insurance Act ("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 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, 2008, 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.

For a discussion of the Bank's capital position relative to its FDIC Capital requirements at June 30, 2008, see Note 12 of the Notes to the Consolidated Financial Statements in the annual report to stockholders included in Exhibit 13 and hereby incorporated by reference.

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

The amount of dividends actually paid 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

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

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

TAXATION

Federal Taxation

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

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

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

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

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

Missouri Taxation

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

For additional information regarding taxation, see Note 10 of Notes to Consolidated Financial Statements contained in the Annual Report.

Personnel

As of June 30, 2008, the Company had 93 full-time employees and nine 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.

Item 1A.   Risk Factors

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

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

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

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
- the credit history of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

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

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

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

Changes in economic conditions, particularly a significant economic slowdown in Southeast Missouri, could hurt our business.

Our business is directly affected by market conditions, trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. In 2007, the housing and real estate sectors experienced an economic slowdown that has continued into 2008. Further deterioration in economic conditions, in particular within our primary market area in Southeast Missouri real estate markets, could result in the following consequences, among others, any of which could hurt our business materially:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline; and
- collateral for loans made by us, especially real estate, may decline in value, in turn reducing a customer’s borrowing power and reducing the value of assets and collateral securing our loans.

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

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

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

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

Rising interest rates may hurt our profits.

To be profitable we have to earn more interest on our loans and investments than we pay on our deposits and borrowings. If interest rates continue to rise, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest-earning assets, such as loans and investments. This is most likely to occur if short-term interest rates increase at a faster rate than long-term interest rates, which would cause income to go down. At June 30, 2008, $98.6 million, or 28.0%, of our loan portfolio consisted of fixed rate one- to four-family residential real estate loans. In addition, rising interest rates may hurt our income because they may reduce the demand for loans and the value of our securities. A flat yield curve may also hurt our income, because it would reduce our ability to reinvest proceeds from loan and investment repayments at higher rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Annual Report as Exhibit 13.

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

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

New or changes in existing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a financial company's shareholders. These regulations may sometimes impose significant limitations on operations. The significant federal and state banking regulations that affect us are described in this report under the heading "Item 1. Business-Supervision and Regulation." These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time.

Significant legal actions could subject the Company to substantial liabilities.

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

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

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

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

Security breaches in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and our business. Additionally, we outsource our data processing to a third party. If our third party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Properties

The following table sets forth certain information regarding the Bank's offices as of June 30, 2008.

Location	Year Opened	Building Net Book Value as of June 30, 2008	Land Owned/ Leased	Building Owned/ Leased
		(Dollars in thousands)		
Main Office				
531 Vine Street Poplar Bluff, Missouri	1966	$546	Owned	Owned
Branch Offices				
502 Main Street Van Buren, Missouri	1982	$26	Owned	Owned
1330 N. Westwood Blvd. Poplar Bluff, Missouri	1976	$43	Leased(1)	Owned
4214 Highway PP Poplar Bluff, Missouri	2001	$521	Owned	Owned
713 Business 60 West Dexter, Missouri	1979	$45	Owned	Owned
301 First Street Kennett, Missouri	2000	$798	Owned	Owned
302 Washington Doniphan, Missouri	2001	$570	Owned	Owned
13371 Highway 53 Qulin, Missouri	2000	$48	Owned	Owned
1205 S. Main St. Sikeston, Missouri	2006	$915	Owned	Owned

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(1) Lease expires on November 30, 2014 but includes options to renew at lessee's discretion.

Item 3. Legal Proceedings

Except as set forth below, 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.

In April 2005, the Bank discovered there had been an adverse development with respect to a substandard loan that resulted from allegedly fraudulent activities on the part of the borrower. To date, we have liquidated all assets of the borrower of which we were able to take possession, and have incurred charge-offs of $4.7 million. Since June 30, 2006, the Bank no longer reports any amount of this loan relationship, or any collateral related thereto, as an asset. On October 22, 2007, the Bank announced a recovery of $162,500, resulting from claims made by the Bank and other financial institutions against the bonding company insuring the accounting firm that performed audits on said borrower. The Bank does not anticipate further significant recoveries related to this loan relationship.

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, 2008.

PART II

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

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

Information regarding our equity compensation plans is included in Item 12 of this Form 10-K.

The following table summarizes the Company's stock repurchase activity for each month during the three months ended June 30, 2008. All shares repurchased during three months ended June 30, 2008, were repurchased in the open market.

	Total # of Shares Purchased	Average Price Paid Per Share	Total # of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased
06/01/08-06/30/08 period	33,500	$ 14.32	33,500	16,857
05/01/08-05/31/08 period	10,300	14.90	10,300	50,357
04/01/08-04/30/08 period	---	---	---	60,657

Item 6. Selected Financial Data

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

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

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 7A Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Report From Independent Registered Public Accounting Firm*

(a) Consolidated Balance Sheets as of June 30, 2008 and 2007*
(b) Consolidated Statements of Income for the Years Ended June 30, 2008, 2007 and 2006*
(c) Consolidated Statements of Stockholders' Equity For the Years Ended June 30, 2008, 2007 and 2006*
(d) Consolidated Statements of Cash Flows For the Years Ended June 30, 2008, 2007 and 2006*
(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 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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, 2008, 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, 2008, 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.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the

inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control Over Financial Reporting

The management of Southern Missouri Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, we believe that, as of June 30, 2008, the Company's internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation of our independent public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Date: September 29, 2008

By: /s/ Greg A. Steffens
Greg A. Steffens
President
(Principal Executive and Principal Financial and Accounting Officer)

Item 9B. Other Information

None.

PART III

Item 10. 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 October 20, 2008, 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 October 20, 2008, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be field not later than 120 days after the close of the fiscal year.

Audit Committee Matters and Audit Committee Financial Expert

The Board of Directors of the Company has a standing Audit/Compliance Committee, which has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of that committee are Directors Love (Chairman), Tatum, Smith, Bagby, Black, Schalk, Moffitt and Brooks, all of whom are considered independent under applicable Nasdaq listing standards. The Board of Directors has determined that Mr. Love is an "audit committee financial expert" as defined in applicable SEC rules. Additional information concerning the audit committee of the Company's Board of Directors is incorporated herein by reference from the Company's definitive proxy statement for its Annual Meeting of Stockholders to be held in October 2008, except for information contained under the heading "Compensation Committee Report" and "Report of the Audit Committee", a copy of which will be filed 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, 2008. 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, 2005, the Company adopted a written Code of Ethics based upon the standards set forth under Item 406 of the Securities Exchange Act. The Code of Ethics applies to all of the Company's directors, officers and employees.

Nomination Procedures

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's Board of Directors.

Item 11. 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 October 20, 2008, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

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 October 20, 2008, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

The following table sets forth information as of June 30, 2008 with respect to compensation plans under which shares of common stock were issued.

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	104,500	$12.43	29,500
Equity Compensation Plans Not Approved By Security Holders	---	---	---

Item 13. 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 October 20, 2008, except for information contained under the headings "Compensation Committee Report" and "Stock Performance Presentation," a copy of which will be filed not later than 120 days after the close of the fiscal year.

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 2008 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements:

Part II, Item 8 is hereby incorporated by reference.

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits:

Regulation S-K 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			++
10	Material 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	**
	(d)		Director's Retirement Agreements	
		(v)	James W. Tatum	***
		(vi)	Samuel H. Smith	***
		(vii)	Sammy A. Schalk	****
		(viii)	Ronnie D. Black	****
		(ix)	L. Douglas Bagby	****
		(x)	Rebecca McLane Brooks	*****
		(xi)	Charles R. Love	*****
		(xii)	Charles R. Moffitt	*****
	(e)		Tax Sharing Agreement	***
11	Statement Regarding Computation of Per Share Earnings			11
13	2008 Annual Report to Stockholders			13
14	Code of Conduct and Ethics			+++
21	Subsidiaries of the Registrant			21
23	Consent of Auditors			23
31	Rule 13a-14(a)/15d-14(a) Certifications			
32	Section 1350 Certifications			

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* 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 Report on Form 10-QSB for the quarter ended December 31, 2004.
++ Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 1999.
+++ Filed as an exhibit to the Current Report on Form 8-K filed on September 15, 2005.

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 29, 2008

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/ James W. Tatum James W. Tatum Chairman of the Board of Directors	September 29, 2008
By:	/s/ Greg A. Steffens Greg A. Steffens President (*Principal Executive and Financial and Accounting Officer*)	September 29, 2008
By:	/s/ Samuel H. Smith Samuel H. Smith Vice Chairman and Director	September 29, 2008
By:	/s/ Ronnie D. Black Ronnie D. Black Secretary and Director	September 29, 2008
By:	/s/ L. Douglas Bagby L. Douglas Bagby Director	September 29, 2008
By:	/s/ Sammy A. Schalk Sammy A. Schalk Director	September 29, 2008
By:	/s/ Rebecca McLane Brooks Rebecca McLane Brooks Director	September 29, 2008
By:	/s/ Charles R. Love Charles R. Love Director	September 29, 2008
By:	/s/ Charles R. Moffitt Charles R. Moffitt Director	September 29, 2008

Index to Exhibits

Regulation S-B Exhibit Number	Document
10.1	Named Executive Officer Salary and Bonus Agreement for 2008
10.2	Director Fee Arrangements
11	Statement Regarding Computation of Per Share Earnings
13	2007 Annual Report to Stockholders
21	Subsidiaries of the Registrant
23	Consent of Auditors
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications

Section 2: EX-10.1

EXHIBIT 10.1

Named Executive Officer Salary and Bonus Arrangements for 2008

Base Salaries

The base salaries for 2008 for the executive officers (the "named executive officers") of Southern Missouri Bancorp, Inc. (the "Company") also is a director of Southern Missouri Bank & Trust (the "Bank") who will be named in the compensation table that will appear in the Company's upcoming 2008 annual meeting proxy statement are as follows:

Name and Title	Base Salary
Greg Steffens President and Chief Financial Officer	$180,210
William Hribovsek Chief Lending Officer	$134,238
William Aslin Market Area President	$115,486

Description of 2008 Bonus Arrangement

The Company has no formal written incentive bonus plan for executive management; however, the compensation committee does have written guidelines regarding bonus payments. The guidelines indicate that the amount of bonus available for award to executive management should be predicated on the Company's performance in meeting various goals, including return on equity, growth in earnings per share, efficiency and control of non-interest expense, and diversification of revenues. Officers outside of executive management (including market area presidents) generally participate in a bonus program that conditions awards upon reaching employee and branch goals regarding loan and deposit growth, and overall company profitability.

Additional information about the 2008 bonus compensation is incorporated herein by reference from the Company's definitive proxy statement for its Annual Meeting of Stockholders to be held in October 2008, except for information contained under the headings "Compensation Committee Report," and "Report of the Audit Committee," a copy of which will be filed not later than 120 days after the close of the fiscal year.

Section 3: EX-10.2

EXHIBIT 10.2

Director Fee Arrangements for 2008

Each director of Southern Missouri Bancorp, Inc. (the "Company") also is a director of Southern Missouri Bank & Trust (the "Bank"). For 2008, each non-employee director receives a monthly fee of $900 for serving on the Company's Board of Directors and $1,000 for serving on the Bank's Board of Directors.

Section 4: EX-11

EXHIBIT 11

Statement Regarding Computation of Per Share Earnings

SOUTHERN MISSOURI BANCORP, INC. AND SUBSIDIARY
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

	Year Ended June 30,		
	2008	2007	2006
Basic			
Average shares outstanding	2,199,928	2,225,658	2,224,409
Net income	$ 3,613,480	$ 2,928,413	$ 2,784,166
Basic earnings per share	$ 1.64	$ 1.32	$ 1.25
Diluted			
Average shares outstanding	2,199,928	2,225,658	2,224,409
Net effect of dilutive stock options - based on the treasury stock method using the period end market price, if greater than average market price	12,204	38,578	27,852
Total	2,212,132	2,264,326	2,252,261
Net income	$ 3,613,480	$ 2,928,413	$ 2,784,166
Diluted earnings per share	$ 1.63	$ 1.29	$ 1.24

Section 5: EX-13

Standing Tall
in our Field
SOUTHERN MISSOURI BANCORP, INC.
2008 ANNUAL REPORT

> CORPORATE PROFILE <

Southern Missouri Bancorp, Inc. (NASDAQ: SMBC) is the holding company for Southern Missouri Bank & Trust Company (Southern Missouri Bank). While the last year has been turbulent for much of our industry, the Company reported record profits and maintained asset quality.

The Company looks forward to the coming year with great anticipation. We believe it's a great time to be a bank in our communities.

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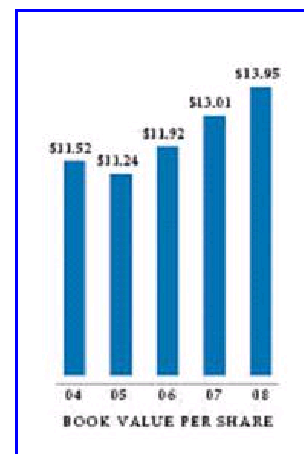
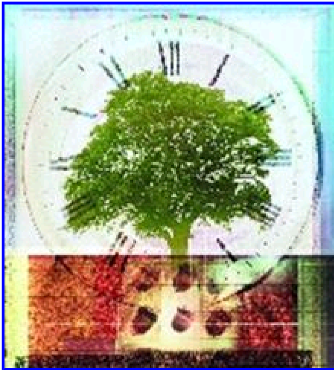
> FINANCIAL SUMMARY <

	2008	2007	CHANGE(%)
EARNINGS *(dollars in thousands)*			
Net interest income	$ 11,780	$ 9,929	18.6
Provision for possible loan losses	940	605	55.4
Other income	2,412	2,207	9.3
Other expense	7,864	7,458	5.4
Income taxes	1,775	1,145	55.1
Net income	3,613	2,928	23.4
PER COMMON SHARE			
Net income:			
Basic	$ 1.64	$ 1.32	24.2
Diluted	1.63	1.29	26.4
Tangible book value	13.11	12.06	8.7
Closing market price	15.49	14.95	3.6
Cash dividends declared	.40	.36	11.1
AT YEAR-END *(dollars in thousands)*			
Total assets	$ 417,820	$ 379,927	10.0
Loans, net of allowance	343,070	312,063	9.9
Reserves as a percent of nonperforming loans	58,865%	9,845%	
Deposits	$ 292,257	$ 270,088	8.2
Stockholders' equity	30,472	28,714	6.1
FINANCIAL RATIOS			
Return on average stockholders' equity	12.06%	10.49%	
Return on average assets	.92	.80	
Net interest margin	3.17	2.90	
Efficiency ratio	55.41	61.45	
Allowance for possible loan losses to net loans	1.04	.81	
Equity to average assets at year-end	7.73	7.88	
OTHER DATA(1)			
Common shares outstanding	2,190,833	2,213,976	
Average common and dilutive shares outstanding	2,212,132	2,264,236	
Stockholders of record	276	276	
Full-time equivalent employees	100	95	
Assets per employee (in thousands)	$ 4,178	$ 3,999	
Banking offices	9	9	

(1) Other data is as of year-end, except for average shares.



Share and per share data have been adjusted to reflect the September 26, 2003 two-for-one stock split.



In 2008,

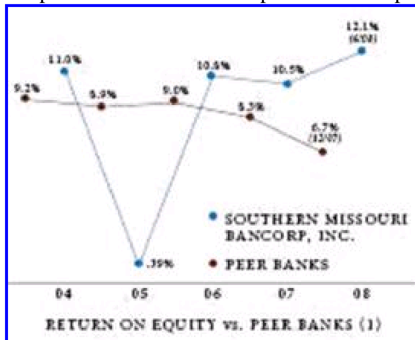
Southern Missouri Bancorp produced outstanding results, standing tall in our field.

Our earnings grew to a record $1.63 per diluted share, up from $1.29 in the prior fiscal year, providing a return on average equity of 12.1% and a return on average assets of 0.92%. While much of the financial services industry has been embroiled in turmoil since the summer of 2007, we were able to continue to grow our core business, maintain strong asset quality, and improve our profitability. We are very pleased with our results for 2008, and look forward to continued strong performance in the years to come.

Net income for 2008 totaled $3.6 million, up 23.4% from a year ago. The main factor in our success was growth in net interest income, up 18.6% in 2008. We grew net interest income by improving our net interest margin – up 27 basis points – and by growing our average interest earning assets – up 8.5%.

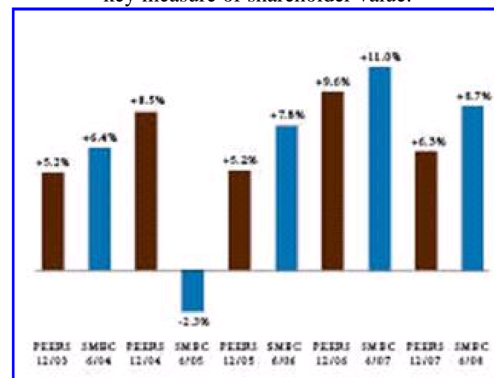
Return on Equity again surpasses peer banks

We improved our ROE and outperformed our peers.



Tangible Book Value per share growth beats peers

We have regularly exceeded our peer banks (1) in this key measure of shareholder value.



(1) Peer data is based on the average year-end figures (December) from SNL DataSource's Index of publicly traded commercial banks and thrifts with assets of $100 million to $1 billion, headquartered in Missouri, Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee. SMBC data is as of fiscal year-end (June).

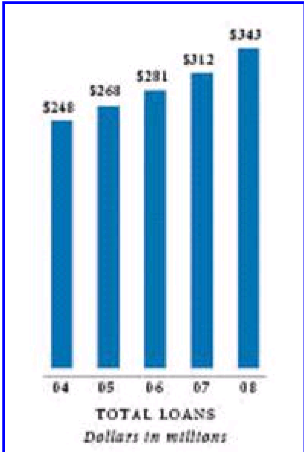
Our net loan portfolio grew 10.0% in 2008, with much of our growth continuing to be realized in commercial and commercial real estate loans, serving to diversify our existing portfolio. Deposits were up 8.2%, and repurchase agreements were up 22.8%, as we were able to attract retail and public unit funds despite a tough competitive environment.

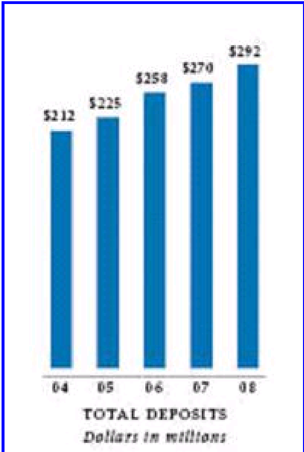
NET INCOME FOR 2008 TOTALED $3.6 MILLION, UP 23.4% FROM A YEAR AGO.

The Company's book value per share increased by 7.2%, and tangible book value per share increased by 8.7%. Along with earnings, our per-share valuations are some of our most closely-watched measures, as they are indicators of the Company's true value to our shareholders. The Company also purchased approximately 4% of outstanding stock under the repurchase plan announced in June 2007, increasing each remaining shareholder's percentage of ownership.

Steady growth in these key measures of our core businesses

We have continued our solid loan growth in 2008 and improved deposit growth.





There is no doubt that we are experiencing a very difficult period for ***our nation's economy.***

Employment growth has sputtered, the housing industry's troubles continue, financial firms have been weakened first by the sub-prime lending fallout, and then by a more general credit crunch, and now energy and food prices are putting the squeeze on the American consumer.

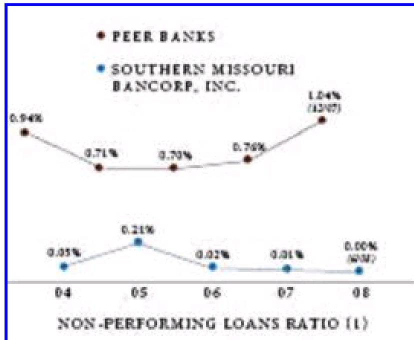
But there are silver linings:

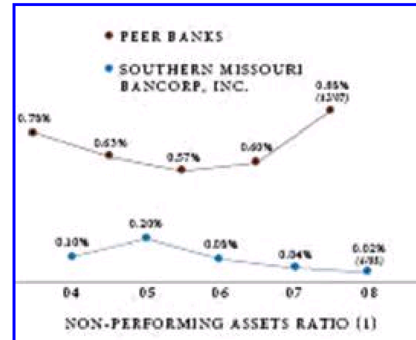
- While our local economies may not grow as fast as other areas when times are good, they don't decline as quickly when times are bad – the massive construction and development lending that fueled excess capacity in many metropolitan areas is simply not an issue in our markets.
- Southern Missouri never adopted a policy of making home loans without requiring that old-fashioned down payment, and we're not suffering fallout from either losing that line of business, or worse, dealing with the asset quality problems that resulted.
- And, as many of the national financial players begin to restrict growth – or even close offices – in an attempt to repair their stressed capital ratios, Southern Missouri is still here and ready to do business in our communities in a safe and sound manner.

The Company has continued to focus intently on asset quality, and non-performing assets and past-dues remain below peers. While charge-offs have remained low, and the Company does not expect to realize the level of credit problems afflicting banks that took more aggressive positions, we still believe that it is prudent to take into account the nation's slowing economy and troubled real estate market when setting our allowance for loan losses. With this in mind, the Company increased the allowance from 0.81% of total loans at June 30, 2007, to 1.03% of total loans at June 30, 2008.

Loan quality is sound

These important indicators show that our loan quality remained well ahead of peer banks in 2008.





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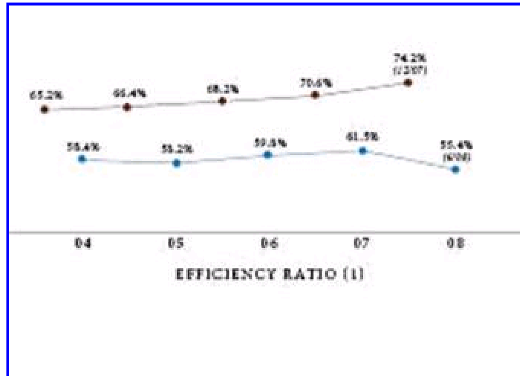
Holding the line on expenses while our earnings grew, our measures of efficiency improved markedly. Our efficiency ratio improved to 55.4% in fiscal 2008, from 61.5% the year prior. With an eye towards prudence, the Company is willing to spend when it sees a true return from investing in technology, premises, or, most importantly, people. We added key employees during fiscal 2008 when we saw an opportunity to use them to improve returns to you, the shareholder.

Efficiency remains ahead of peers

We improved income significantly in 2008 while holding overhead costs in check.



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We will continue to develop new products and use innovative technology to reach our next generation of customers.

New "rewards checking" products are on the horizon, and we will specifically tailor some rewards to bring in young depositors. We have implemented an investment services program at multiple locations, broadening existing relationships and building new ones. We will increase our efforts to reach potential customers using the internet and mobile technology over the coming year. And we have developed a Company-wide effort to help our local schools provide sound financial education to students, knowing that our work will benefit the community, the young people we meet, and eventually, the Company.

To sum up, it was a fantastic year for Southern Missouri.

Improved earnings, solid asset quality, and growth in our core business all combined to produce the kind of year we hope to report to you every year and, we believe, provides a foundation for future results. As a result, we recently announced a 20% increase in our quarterly dividend.

IN RECOGNITION OF OUR PROFITABLE YEAR, WE INCREASED OUR QUARTERLY DIVIDEND BY 20%.

Our success is possible because of our employees. Their hard work, year after year, is a credit to them and to the culture of this organization.

Our success is possible because of our customers. Their willingness to entrust to us their financial needs provides the opportunity to generate returns on the capital you've invested.

And our success is possible because of you, our shareholders. In the years since the establishment of the Company, we've been fortunate to hold a base of shareholders that trusted us to execute our business plan.

We are happy to report these positive results on your investment.

GREG STEFFENS

PRESIDENT, SOUTHERN MISSOURI BANCORP, INC.

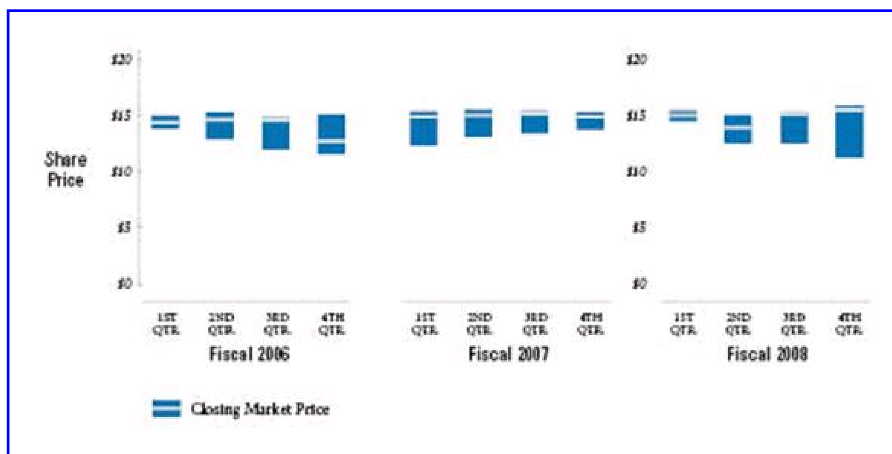
PLEASE JOIN US

at our 2008 Annual Meeting where shareholders and those considering investing in Southern Missouri Bancorp, Inc. will hear management cover this year's performance in detail and discuss our plans for continued growth.

ANNUAL MEETING
MONDAY, OCTOBER 20 AT 9 AM – CHAMBER OF COMMERCE BUILDING, POPLAR BLUFF

> COMMON SHARE DATA <

The common stock of the Company is listed on the NASDAQ Stock Market under the symbol "SMBC." The following bar graph sets forth the high, low and closing market prices of the common stock for the last three fiscal years.



The following table sets forth per share market price and dividend information for the Company's common stock. As of June 30, 2008, there were approximately 276 stockholders of record. This does not reflect the number of persons or entities who hold stock in nominee or "street name."

Fiscal 2008	High	Low	Close	Book Value At End Of Period	Market Price To Book Value	Dividends Declared
4th Quarter *(6-30-08)*	$15.89	$11.21	$15.49	$13.95	111.04%	$0.10
3rd Quarter *(3-31-08)*	$15.10	$12.75	$15.10	$13.95	108.24%	$0.10
2nd Quarter *(12-31-07)*	$15.02	$12.75	$13.99	$13.76	101.67%	$0.10
1st Quarter *(9-30-07)*	$15.25	$14.45	$14.96	$13.35	112.06%	$0.10
Fiscal 2007						
4th Quarter *(6-30-07)*	$15.49	$14.00	$14.95	$13.01	114.91%	$0.09
3rd Quarter *(3-31-07)*	$15.50	$14.50	$15.48	$12.83	120.65%	$0.09
2nd Quarter *(12-31-06)*	$15.73	$14.06	$15.19	$12.59	120.65%	$0.09
1st Quarter *(9-30-06)*	$15.55	$12.29	$15.00	$12.29	122.05%	$0.09
Fiscal 2006						
4th Quarter *(6-30-06)*	$15.07	$11.80	$13.00	$11.92	109.06%	$0.09
3rd Quarter *(3-31-06)*	$14.95	$12.02	$14.77	$11.77	125.49%	$0.09
2nd Quarter *(12-31-05)*	$15.47	$13.00	$14.70	$11.57	127.05%	$0.09
1st Quarter *(9-30-05)*	$15.06	$13.90	$14.35	$11.42	125.66%	$0.09

Any future dividend declarations and payments are subject to the discretion of the Board of Directors of the Company.
The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company. For a discussion of the restrictions on the Bank's ability to pay dividends, see Note 12 of Notes to Consolidated Financial Statements included elsewhere in this report.

BUSINESS OF THE COMPANY AND THE BANK

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Missouri Bank & Trust Co. (SMBT or the Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank.

The Bank was originally chartered by the State of Missouri in 1887 and converted from a state-chartered stock savings and loan association to a Federally-chartered stock savings bank effective June 1995. Then, effective February 1998, the Bank converted its charter to a state-chartered stock savings bank. On June 4, 2004, the Bank converted to a state chartered trust company with banking powers. The Bank's deposit accounts are generally insured up to a maximum of $100,000 (some retirement accounts are insured up to $250,000) by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC).

The Bank's primary business consists of attracting deposits from the communities it serves and investing those funds in loans secured by one- to four-family residences, commercial real estate, commercial business and consumer loans. The Company's results of operations are primarily dependent on its net interest margin, which is the difference between the average yield on loans, mortgage-related securities and investments and the average rate paid on deposits, securities sold under agreements to repurchase and borrowings.

The net interest margin is affected by economic, regulatory and competitive factors that influence interest rates, loan demand and deposits. Lending activities are funded through the attraction of deposit accounts consisting of checking accounts, passbook accounts, money market deposit accounts, certificate of deposit accounts with terms of 60 months or less, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of Des Moines, and, to a lesser extent, brokered deposits. The Bank currently conducts its business through its home office located in Poplar Bluff and eight full service branch facilities in Poplar Bluff (2), Van Buren, Dexter, Kennett, Doniphan, Sikeston and Qulin, Missouri.

(dollars in thousands)	At June 30				
Financial Condition Data:	**2008**	2007	2006	2005	2004
Total assets	$ 417,820	$ 379,927	$ 350,684	$ 330,360	$ 311,703
Loans receivable, net	343,070	312,063	280,931	267,568	248,355
Mortgage-backed securities	28,006	10,723	14,440	17,243	20,994
Cash, interest-bearing deposits and investment securities	19,931	31,492	30,328	21,344	23,794
Deposits	292,257	270,088	258,069	224,666	211,959
Borrowings	85,854	71,758	57,296	72,257	65,698
Subordinated debt	7,217	7,217	7,217	7,217	7,217
Stockholders' equity	30,472	28,714	26,554	25,003	25,952

(dollars in thousands, except per share data)	For The Year Ended June 30				
Operating Data:	**2008**	2007	2006	2005	2004
Interest income	$ 25,327	$ 23,550	$ 20,363	$ 17,284	$ 15,700
Interest expense	13,547	13,621	10,763	8,032	6,545
Net interest income	11,780	9,929	9,600	9,252	9,155
Provision for loan losses	940	605	555	4,815	275
Net interest income after provision for loan losses	10,840	9,324	9,045	4,437	8,880
Noninterest income	2,412	2,207	2,144	2,313	1,875
Noninterest expense	7,864	7,458	7,028	6,728	6,445
Income before income taxes	5,388	4,073	4,161	22	4,310
Income tax (benefit) expense	1,775	1,145	1,377	(82)	1,427
Net income	$ 3,613	$ 2,928	$ 2,784	$ 104	$ 2,883
Basic earnings per common share	$ 1.64	$ 1.32	$ 1.25	$ .05	$ 1.27
Diluted earnings per common share	$ 1.63	$ 1.29	$ 1.24	$ .05	$ 1.23
Dividends per share	$ .40	$ .36	$ .36	$ .36	$ .36

Other Data:	At June 30				
	2008	2007	2006	2005	2004
Number of:					
Real estate loans	2,868	2,795	2,808	2,850	2,877
Deposit accounts	20,560	19,978	18,845	17,336	16,995
Full service offices	9	9	9	8	8

Key Operating Ratios:	At Or For The Year Ended June 30				
	2008	2007	2006	2005	2004
Return on assets (net income divided by average assets)	.92%	.80%	.80%	.03%	.98%
Return on average equity (net income divided by average equity)	12.06	10.49	10.83	.39	11.09
Average equity to average assets	7.60	7.66	7.43	8.18	8.82
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	2.86	2.57	2.69	2.84	3.06
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.17	2.90	2.96	3.06	3.28
Noninterest expense to average assets	2.00	2.05	2.03	2.07	2.19
Average interest-earning assets to average interest-bearing liabilities	108.60	108.29	108.15	108.10	109.42
Allowance for loan losses to gross loans (1)	1.03	.81	.73	.75	.80
Allowance for loan losses to nonperforming loans (1)	58,864.74	9,845.43	3,888.50	353.36	1,460.14
Net (recoveries) charge-offs to average outstanding loans during the period	(0.03)	.04	.19	1.85	.06
Ratio of nonperforming assets to total assets (1)	.02	.04	.08	.20	.10
Dividend payout ratio	24.49	27.50	28.80	776.14	28.50

(1) At end of period

OVERVIEW

Southern Missouri Bancorp, Inc. is a Missouri corporation originally organized for the principal purpose of becoming the holding company of Southern Missouri Savings Bank. The Bank converted from a Federally-chartered stock savings bank to a state-chartered stock savings bank effective February 17, 1998, and subsequently changed its name to Southern Missouri Bank & Trust Co. The Company's state of incorporation changed from Delaware to Missouri effective April 1, 1999. On June 4, 2004, the Bank converted to a state chartered trust company with banking powers, and the Company became a bank holding company supervised by the Federal Reserve.

The principal business of SMBT consists of attracting deposits from the general public and using such deposits along with wholesale funding from the Federal Home Loan Bank of Des Moines (FHLB) to finance mortgage loans secured by one- to four-family residences, commercial real estate loans and commercial business loans. These funds have also been used to purchase investment securities, mortgage-backed securities (MBS), U.S. government and federal agency obligations and other permissible securities.

Southern Missouri's results of operations are primarily dependent on the levels of its net interest margin and noninterest income, and its ability to control operating expenses. Net interest margin is dependent primarily on the difference or spread between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, as well as the relative amounts of these assets and liabilities. Southern Missouri is subject to interest rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a varying basis, from its interest-bearing liabilities.

Southern Missouri's noninterest income consists primarily of fees charged on transaction and loan accounts and increased cash surrender value of bank owned life insurance ("BOLI"). Southern Missouri's operating expenses include: employee compensation and benefits, occupancy expenses, legal and professional fees, federal deposit insurance premiums, amortization of intangible assets and other general and administrative expenses.

Southern Missouri's operations are significantly influenced by general economic conditions including monetary and fiscal policies of the U.S. government and the Federal Reserve Board. Additionally, Southern Missouri is subject to policies and regulations issued by financial institution regulatory agencies, including the Federal Deposit Insurance Corporation, the Federal Reserve and the Missouri Division of Finance. Each of these factors may influence interest rates, loan demand, prepayment rates and deposit flows. Interest rates available on competing investments as well as general market interest rates influence the Bank's cost of funds. Lending activities are affected by the demand for real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered. The Bank intends to continue to focus on its lending programs for one- to four-family residential real estate, commercial real estate, commercial business and consumer financing on loans secured by properties or collateral located primarily in Southeastern Missouri.

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 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 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.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

Loans are considered impaired if, based on current information and events, it is probable that Southern Missouri will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the collateral for collateral-dependent loans. If the loan is not collateral-dependent, the measurement of impairment is based on the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. In measuring the fair value of the collateral, management uses the assumptions (i.e., discount rates) and methodologies (i.e., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties. Impairment identified through this evaluation process is a component of the allowance for loan losses. If a loan that is individually evaluated for impairment is found to have none, it is grouped together with loans having similar characteristics (i.e., the same risk grade), and an allowance for loan losses is based upon historical average charge-offs for similar loans over the past five years, the historical average charge-off rate for developing trends in the economy, in industries and other factors. For portfolio loans that are evaluated for impairment as part of homogenous pools, an allowance is maintained based upon the average charge-offs for the past five years.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the conditions of the various markets in which collateral may be sold may all affect the required level of the allowance for losses on loans and the associated provision for losses on loans.

FINANCIAL CONDITION

General. The Company's total assets increased $37.9 million, or 10.0%, to $417.8 million at June 30, 2008, when compared to $379.9 million at June 30, 2007. The growth was primarily due to growth in the loan portfolio of $31.0 million, or 10.0%, as well as growth in available for sale investments of $5.0 million, or 14.4%. Asset growth was primarily funded by growth in deposit balances of $22.2 million, or 8.2%, FHLB advances of $10.1 million, or 18.6%, and repurchase agreements of $4.0 million, or 22.8%.

Loans. Loans increased $31.1 million, or 10.0%, to $343.1 million at June 30, 2008, from $312.0 million at June 30, 2007. The growth in the loan portfolio was comprised principally of residential real estate loans of $14.1 million (including $7.2 million in multifamily developments), and commercial and commercial real estate loans of $5.5 million and $8.1 million, respectively.

Allowance for Loan Losses. The allowance for loan losses increased $1.1 million, or 40.6%, from $2.5 million at June 30, 2007, to $3.6 million at June 30, 2008. The allowance for loan losses represented 1.03% of gross loans receivable at June 30, 2008, as compared to 0.81% at June 30, 2007. At June 30, 2008, nonperforming loans, which included loans past due greater than 90 days and nonaccruing loans, were $6,000, compared to $26,000 at June 30, 2007 (see, however, Provision for Loan Losses, under Comparison of Years Ended June 30, 2008 and 2007).

Investments. The investment portfolio increased $5.0 million, or 14.4%, to $39.9 million at June 30, 2008, from $34.9 million at June 30, 2007. The increase in the investment portfolio was primarily due to the Company's strategic decision to increase investment balances to meet pledging needs for public unit deposits and repurchase agreements, and to take advantage of attractive yield spreads available during the fiscal year.

Premises and Equipment. Premises and equipment decreased $446,000 to $8.2 million at June 30, 2008, from $8.6 million at June 30, 2007. The decrease was due to depreciation expense for the fiscal year, partially offset by equipment and software purchases.

Bank Owned Life Insurance. The Bank purchased "key person" life insurance policies on six employees with a cash surrender value of $4.0 million in February, 2003. In addition, in October, 2004, the Bank purchased "key person" life insurance policies on 20 employees for $2.0 million. At June 30, 2008, the cash surrender value had increased to $7.3 million.

Intangible Assets. Intangible assets generated through branch acquisitions in 2000 decreased $255,000 to $1.8 million as of June 30, 2008, and will continue to be amortized in accordance with Statement of Financial Accounting Standards (SFAS) No. 142.

Deposits. Deposits increased $22.2 million, or 8.2%, to $292.3 million at June 30, 2008, from $270.1 million at June 30, 2007. The deposit growth was primarily comprised of increases in retail and public CDs and checking accounts of $19.8 million and $3.0 million, respectively, partially offset by decreases in money market deposit and passbook accounts of $600,000. At June 30, 2008, brokered deposits totaled less than $100,000. Public unit deposits increased $10.3 million during fiscal 2008.

Borrowings. FHLB advances increased $10.1 million, or 18.6%, to $64.1 million at June 30, 2008, from $54.0 million at June 30, 2007, with much of the increase coming late in the fiscal year to fund asset growth. Of the outstanding advances, $5.6 million were short term borrowings, compared to $7.0 million in short term borrowings at June 30, 2007. Of the remaining $58.5 million in long-term advances, the entire amount carries fixed interest rates, and $49.5 million is subject to early redemption by the issuer.

At June 30, 2008, the long-term advances had a weighted average maturity of 4.3 years, compared to 4.2 years at June 30, 2007. At June 30, 2008, all FHLB advances had a weighted-average cost of 4.91%, as compared to 5.42% at June 30, 2007.

Subordinated Debt. In March, 2004, the Company issued $7.0 million of Floating Rate Capital Securities of Southern Missouri Statutory Trust I 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 three month LIBOR.

Stockholders' Equity. The Company's stockholders' equity increased by $1.8 million, or 6.1%, to $30.5 million at June 30, 2008, from $28.7 million at June 30, 2007. This increase was primarily due to net income of $3.6 million and stock options exercised for $566,000, partially offset by treasury stock purchases of $1.4 million, dividend payments of $884,000 , and a $278,000 decrease in the market value of the investment portfolio, net of tax. The Company has approximately 17,000 shares of common stock remaining to be purchased under its current stock repurchase program of approximately 110,000 shares announced on June 21, 2007.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

Net Income. Southern Missouri's net income was $3.6 million for the fiscal year ended June 30, 2008, an increase of $685,000, or 23.4%, when compared to the results of the prior fiscal year. The increase in net income was primarily due to a $1.9 million increase in net interest income and an increase in non-interest income of $205,000, partially offset by a $630,000 increase in income tax provisions, a $406,000 increase in non-interest expenses, and a $335,000 increase in loan loss provisions.

Net Interest Income. Net interest income increased $1.9 million, or 18.6%, to $11.8 million for fiscal 2008, when compared to the prior fiscal year. The increase was primarily due to a 29 basis point increase in the average interest rate spread, combined with a $29.0 million increase in average interest-earning assets. The increase in interest rate spread was primarily a result of decreasing short-term interest rates, prompted by actions of the Federal Reserve's Federal Open Market Committee, as well as a steeper yield curve for most of the fiscal year. For fiscal 2008, the average interest rate spread was 2.86%, compared to 2.57% for fiscal year 2007. At June 30, 2008, the spread was 3.12%.

Interest Income. Interest income increased $1.8 million, or 7.5%, to $25.3 million for fiscal 2008, when compared to the prior fiscal year. The increase was primarily due to the $29.0 million increase in the average balance of interest-earning assets, partially offset by a five basis point decrease in average yield earned on interest-earning assets, from 6.87% in fiscal 2007 to 6.82% in fiscal 2008.

Interest income on loans receivable increased by $1.6 million, or 7.4%, to $23.3 million for fiscal 2008 when compared to the prior fiscal year. The increase was due to a $27.6 million increase in average balance of loans receivable, partially offset by a 13 basis point decrease in the average yield earned on loans receivable.

Interest income on the investment portfolio and other interest-earning assets increased $183,000 or 9.8%, to $2.0 million for fiscal 2008 when compared to the prior fiscal year. The increase was due to a 27 basis point increase in the average yield earned on these assets, combined with a $1.4 million increase in the average balance of investments and other interest-earning assets.

Interest Expense. Interest expense decreased $74,000, or 0.5%, to $13.5 million for fiscal 2008 when compared to the prior fiscal year. The decrease was due to the 34 basis point decrease in the average rate paid on interest-bearing liabilities, from 4.30% in fiscal 2007 to 3.96% in fiscal 2008, partially offset by a $25.8 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits increased $199,000, or 2.2%, to $9.3 million for fiscal 2008 when compared to the prior fiscal year. The increase was due to a $21.4 million increase in average deposits outstanding, partially offset by a 24 basis point decrease in the average rate paid on deposits.

Interest expense on FHLB advances decreased $324,000, or 9.5%, to $3.1 million for fiscal 2008 when compared to the prior fiscal year. The decrease was primarily due to the $4.4 million decrease in the average balance of FHLB advances for fiscal 2008, combined with the 15 basis point decrease in the average rate paid on advances.

The Company issued $7.0 million of Floating Rate Capital Securities in March, 2004, with an interest rate of three month LIBOR plus 275 basis points, repricing quarterly. Interest expense on these securities was $539,000 for fiscal 2008 as compared to $594,000 for the prior fiscal year. This decrease was due to the average rate paid decreasing by 77 basis points.

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

The provision for loan losses was $940,000 for fiscal 2008, compared to $605,000 for the prior fiscal year. The increase in provision was primarily due to loan growth, the health of the national and regional economy, and the potential for declining real estate collateral values. In fiscal 2008, net recoveries were $90,000, compared to net charge offs of $125,000 for the prior year. At June 30, 2008, classified assets totaled $4.5 million, compared to classified assets of $1.3 million at June 30, 2007. The increase in classifications was due primarily to a single loan relationship with outstanding classified balances of $3.5 million, secured by commercial and agricultural real estate, and was performing according to terms at June 30, 2008. The relationship was classified due to concerns regarding the borrower's ability to generate sufficient cash flow from operations to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2008, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income increased $205,000, or 9.3%, to $2.4 million for fiscal 2008, when compared to the prior fiscal year. The increase was primarily due to increased collection of insufficient funds charges, increased debit and ATM card income, loan late charges, and increases in the cash surrender value of BOLI, partially offset by lower secondary market loan income.

Noninterest Expense. Noninterest expense increased $406,000, or 5.4%,

to $7.9 million for fiscal 2008, when compared to the prior fiscal year. The increase resulted primarily from higher compensation expenses, partially offset by lower professional, advertising, and miscellaneous expenses. Expenses for compensation and benefits increased $422,000, or 10.5%, for fiscal 2008 when compared to the prior year. The increase was due to increased salaries, addition of personnel, and the payment of additional bonuses based on the Company's strong financial performance.

Provision for Income Taxes. The Company expensed an income tax provision of $1.8 million for fiscal 2008, compared to $1.1 million in fiscal 2007. The increase was primarily due to increased pre-tax income, as well as the prior fiscal year's adjustments related to compliance with new accounting standards.

COMPARISON OF THE YEARS ENDED JUNE 30, 2007 AND 2006

Net Income. Southern Missouri's net income was $2.9 million for the fiscal year ended June 30, 2007, an increase of $144,000, or 5.2%, when compared to the results of the prior fiscal year. The increase in net income was primarily due to a $329,000 increase in net interest income, a reduction in income tax provisions of $232,000, and an increase in non-interest income of $63,000, partially offset by a $430,000 increase in non-interest expenses, and a $50,000 increase in loan loss provisions, compared to the prior fiscal year.

Net Interest Income. Net interest income increased $329,000, or 3.4%, to $9.9 million for fiscal 2007, when compared to the prior fiscal year. The increase was primarily due to a $17.9 million increase in average interest-earning assets, partially offset by a 12 basis point decrease in the average interest rate spread. The decrease in interest rate spread was a result of a yield curve which remained relatively flat during the fiscal year. For fiscal 2007, the average interest rate spread was 2.57%, compared to 2.69% for fiscal year 2006. At June 30, 2007, the spread was 2.55%.

Interest Income. Interest income increased $3.2 million, or 15.6%, to $23.5 million for fiscal 2007, when compared to the prior fiscal year. The increase was primarily due to the 60 basis point increase in average yield earned on interest-earning assets from 6.27% in fiscal 2006 to 6.87% in fiscal 2007. Interest income also increased due to the $17.9 million increase in the average balance of interest-earning assets.

Interest income on loans receivable increased by $3.1 million, or 16.9%, to $21.7 million for fiscal 2007 when compared to the prior fiscal year. The increase was primarily due to a 59 basis point increase in the average yield earned on loans receivable. Interest income on loans also increased due to the $20.5 million increase in average loans receivable.

Interest income on the investment portfolio and other interest-earning assets increased $49,000 or 2.7%, to $1.9 million for fiscal 2007 when compared to the prior fiscal year. The increase was due to a 33 basis point increase in the average yield earned on these assets, and was partially offset by a $2.6 million decrease in the average balance outstanding.

Interest Expense. Interest expense increased $2.9 million, or 26.5%, to $13.6 million for fiscal 2007 when compared to the prior fiscal year. The increase was primarily due to the 72 basis point increase in the average rate paid on interest-bearing liabilities from 3.58% in fiscal 2006 to 4.30% in fiscal 2007. Interest expense also increased due to the $16.1 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits increased $2.1 million, or 29.9%, to $9.1 million for fiscal 2007 when compared to the prior fiscal year. The increase was primarily due to an 80 basis point increase in the average rate paid on deposits. Interest expense on deposits also increased due to the $6.4 million increase in average deposits outstanding.

Interest expense on FHLB advances increased $514,000, or 17.8%, to $3.4 million for fiscal 2007 when compared to the prior fiscal year. The increase was primarily due to the $8.3 million increase in the average balance of FHLB advances for fiscal 2007, and the 12 basis point increase in the average rate paid on advances.

The Company issued $7.0 million of Floating Rate Capital Securities in March, 2004, with an interest rate of three month LIBOR plus 275 basis points, repricing quarterly. Interest expense on these securities was $594,000 for fiscal 2007 as compared to $512,000 for the prior fiscal year. This increase was due to the average rate paid increasing by 114 basis points.

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

The provision for loan losses was $605,000 for fiscal 2007, compared to $555,000 for the prior fiscal year. The increase in provision was primarily due to strong loan growth and a declining credit quality environment. In fiscal 2007 net charge offs were $125,000 compared to $513,000 for the prior year. At June 30, 2007, classified assets totaled $1.3 million, roughly equal to the total of classified assets at June 30, 2006.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2007, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, the Bank's regulators will not require further increases in the allowance, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income increased $63,000, or 3.0%, to $2.2 million for fiscal 2007, compared to $2.1 million in fiscal 2006. The increase was primarily due to a $102,000 increase in miscellaneous income collected (including ATM and debit card transaction income, and income from sales of loans on the secondary market), and was offset by a $61,000 decrease in non-sufficient funds charges.

Noninterest Expense. Noninterest expense increased $430,000, or 6.1%, to $7.5 million for fiscal 2007, compared to the $7.0 million expensed during fiscal 2006. The increase resulted primarily from higher compensation, legal and occupancy expenses.

Expenses for compensation and benefits increased $322,000, or 8.7%, for fiscal 2007 when compared to the prior year. The increase was due to the mid-fiscal 2006 addition of employees attributable to the opening of a new branch facility, increased salaries, and other compensation-related expenditures. Occupancy expenses increased $57,000, or 4.1%, primarily due to the cost of acquiring and operating a new facility for the full fiscal year. Professional fees increased $73,000, or 41.8%, primarily due to an increase in legal expenses to obtain a recovery on a large loan loss reported in fiscal 2005.

Provision for Income Taxes. The Company expensed an income tax

provision of $1.1 million for fiscal 2007, compared to $1.4 million in fiscal 2006. The decrease was due to recognition of benefits from acquired tax credits, the Company's investment in additional tax-exempt securities, a reduction in pre-tax income, and adjustments related to compliance with new accounting standards.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The goal of the Company's asset/liability management strategy is to manage the interest rate sensitivity of both interest-earning assets and interest-bearing liabilities in order to maximize net interest income without exposing the Company to an excessive level of interest rate risk. The Company employs various strategies intended to manage the potential effect that changing interest rates may have on future operating results. The primary asset/liability management strategy has been to focus on matching the anticipated repricing intervals of interest-earning assets and interest-bearing liabilities. At times, however, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Company may increase its interest rate risk position in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Company has utilized longer term (up to 10 year maturities), fixed-rate FHLB advances, which may be subject to early redemption, to offset interest rate risk. Other elements of the Company's current asset/liability strategy include: (i) increasing originations of commercial real estate, commercial business loans, agricultural real estate, and agricultural operating lines, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk, (ii) limiting the price volatility of the investment portfolio by maintaining a weighted average maturity of five years or less, (iii) actively soliciting less rate-sensitive deposits, and (iv) offering competitively priced money market accounts and CDs with maturities of up to five years. The degree to which each segment of the strategy is achieved will affect profitability and exposure to interest rate risk.

The Company continues to generate long-term, fixed-rate residential loans. During the year ended June 30, 2008, fixed rate residential loan originations totaled $22.0 million compared to $20.1 million during the same period of the prior year. At June 30, 2008, the fixed-rate residential loan portfolio totaled $98.6 million with a weighted average maturity of 207 months, compared to $91.2 million at June 30, 2007, with a weighted average maturity of 200 months. At June 30, 2008, fixed rate loans with remaining maturities in excess of 10 years totaled $83.7 million, or 24.1%, of loans receivable compared to $78.0 million, or 24.8%, of loans receivable at June 30, 2007. The Company originated $58.3 million in fixed rate commercial and commercial real estate loans during the year ended June 30, 2008, compared to $63.3 million during the prior fiscal year. The Company also originated $50.1 million in adjustable rate commercial and commercial real estate loans during the year ended June 30, 2008, compared to $45.3 million during the prior year. The Company originated $9.9 million in adjustable rate residential loans during the year ended June 30, 2008, compared to $6.8 million during the prior year. At June 30, 2008, adjustable-rate home equity lines of credit had increased to $8.2 million as compared to $6.5 million as of June 30, 2007. Over the last several years, the Company had maintained a weighted average life of its investment portfolio of less than four years, but extended the portfolio's average life and duration during fiscal 2008 in order to take advantage of historically attractive spreads on products with longer maturities. At June 30, 2008, CDs with original terms of two years or more totaled $20.8 million compared to $18.4 million at June 30, 2007.

INTEREST RATE SENSITIVITY ANALYSIS

The following table sets forth as of June 30, 2008, and 2007, management's estimates of the projected changes in net portfolio value in the event of 1%, 2% and 3%, instantaneous, permanent increases or decreases in market interest rates.

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

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

June 30, 2008

Change in Rates	$ Amount	Net Portfolio $ Change	% Change	NPV as % of PV of Assets NPV Ratio	Change
		(dollars in thousands)			
+300 bp	$20,957	(15,791)	(43)	5.33	-3.51
+200 bp	26,442	(10,306)	(28)	6.60	-2.24
+100 bp	31,816	(4,932)	(13)	7.79	-1.05
0 bp	36,748	-	-	8.84	-
-100 bp	39,471	2,723	7	9.36	0.52
-200 bp	42,133	5,385	15	9.85	1.01
-300 bp	43,892	7,144	19	10.15	1.31

June 30, 2007

Change in Rates	$ Amount	Net Portfolio $ Change	% Change	NPV as % of PV of Assets NPV Ratio	Change
		(dollars in thousands)			
+300 bp	$16,862	(16,526)	(49)	4.73	-4.15
+200 bp	22,897	(10,491)	(31)	6.31	-2.57
+100 bp	28,458	(4,930)	(15)	7.70	-1.18
0 bp	33,388	-	-	8.88	-
-100 bp	37,139	3,751	11	9.74	0.86
-200 bp	39,307	5,919	18	10.19	1.31
-300 bp	40,593	7,205	22	10.42	1.54

LIQUIDITY AND CAPITAL RESOURCES

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

Southern Missouri uses its liquid assets as well as other funding sources to meet ongoing commitments, to fund loan commitments, to repay maturing certificates of deposit and FHLB advances, to make investments, to fund other deposit withdrawals and to meet operating expenses. At June 30, 2008, the Bank had outstanding commitments to extend credit of $51.5 million (including $39.1 million in unused lines of credit). Total commitments to originate fixed-rate loans with terms in excess of one year were $8.5 million at tax-equivalent rates ranging from 5.0% to 10.0%, with a weighted-average tax-equivalent rate of 6.83%. Management anticipates that current funding sources will be adequate to meet foreseeable liquidity needs.

The primary sources of funding for the Company are deposits, securities sold under agreements to repurchase and FHLB advances. For the year ended June 30, 2008, Southern Missouri increased deposits, securities sold under agreements to repurchase, and FHLB advances by $22.2 million, $4.0 million, and $10.1 million, respectively. During the prior year, Southern Missouri increased deposits and securities sold under agreements to repurchase by $12.0 million, $6.5 million, and $8.0 million, respectively. At June 30, 2008, the Bank had pledged its residential real estate loan portfolio to the FHLB for available credit of approximately $103.9 million, of which $64.1 million had been advanced, and another $3.5 million had been issued in the form of letters of credit. In addition, the Bank has the ability to pledge several of its other loan portfolios, including commercial real estate, home equity, and commercial business loans, which could provide additional collateral for an additional $96.6 million in borrowings at June 30, 2008. In total, FHLB borrowings are generally limited to 40% of Bank assets (effective January, 2008), or approximately $165.6 million, which means $98.0 million in borrowings remain available. Along with the ability to borrow from the FHLB, management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

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

At June 30, 2008, the Bank had $130.0 million in CDs maturing within one year and $163.7 million in other deposits and securities sold under agreements to repurchase without a specified maturity as compared to the prior year of $117.1 million in CDs maturing within one year and $157.3 million in other deposits and securities sold under agreements to repurchase without a specified maturity. Management believes that most maturing interest-bearing liabilities will be retained or replaced by new interest-bearing liabilities. Also at June 30, 2008, the Bank had $39.0 million in FHLB advances eligible for early redemption by the lender within one year.

REGULATORY CAPITAL

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

At June 30, 2008, the Bank exceeded regulatory capital requirements with core and total risk-based capital of $32.7 million and $36.3 million, or 8.08% and 11.79% of adjusted total assets and risk-weighted assets, respectively. These capital levels exceeded minimum requirements of 4.0% and 8.0% for adjusted total assets and risk-weighted assets. (See Note 12 - Stockholders' Equity and Regulatory Capital.)

IMPACT OF INFLATION

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

AVERAGE BALANCE, INTEREST AND AVERAGE YIELDS AND RATES

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

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

(dollars in thousands)

Year Ended June 30	**2008** Average Balance	**2008** Interest and Dividends	**2008** Yield/ Cost	2007 Average Balance	2007 Interest and Dividends	2007 Yield/ Cost	2006 Average Balance	2006 Interest and Dividends	2006 Yield/ Cost
Interest-earning assets:									
Mortgage loans (1)	$ 232,500	$ 16,541	7.11%	$ 211,203	$ 14,726	6.97%	$ 192,191	$ 12,781	6.65%
Other loans (1)	92,614	6,745	7.28	86,352	6,966	8.07	84,838	5,773	6.81
Total net loans	325,114	23,286	7.16	297,555	21,692	7.29	277,029	18,554	6.70
Mortgage-backed securities	19,372	923	4.76	13,082	556	4.25	15,648	596	3.81
Investment securities (2)	22,552	1,059	4.69	28,234	1,256	4.45	25,067	1,020	4.07
Other interest-earning assets	4,567	59	1.29	3,780	46	1.22	6,989	193	2.77
TOTAL INTEREST-EARNING ASSETS (1)	371,605	25,327	6.82	342,651	23,550	6.87	324,733	20,363	6.27
Other noninterest-earning assets (3)	22,429	-	-	21,563	-	-	21,281	-	-
TOTAL ASSETS	$ 394,034	$ 25,327	-	$ 364,214	$ 23,550	-	$ 346,014	$ 20,363	-
Interest-bearing liabilities:									
Savings accounts	$ 76,126	$ 2,426	3.19%	$ 71,211	$ 2,660	3.74%	$ 70,704	$ 2,259	3.19%
NOW accounts	32,461	427	1.31	30,742	402	1.31	29,619	362	1.22
Money market accounts	6,319	112	1.77	7,321	142	1.94	11,333	206	1.82
Certificates of deposit	140,955	6,287	4.46	125,149	5,849	4.67	116,330	4,140	3.56
TOTAL INTEREST-BEARING DEPOSITS	255,861	9,252	3.62	234,423	9,053	3.86	227,986	6,967	3.06
Borrowings:									
Securities sold under agreements to repurchase	20,567	682	3.31	11,863	575	4.84	10,420	400	3.84
FHLB advances	58,526	3,074	5.25	62,906	3,399	5.40	54,642	2,884	5.28
Junior subordinated debt	7,217	539	7.47	7,217	594	8.24	7,217	512	7.10
TOTAL INTEREST-BEARING LIABILITIES	342,171	13,547	3.96	316,409	13,621	4.30	300,265	10,763	3.58
Noninterest-bearing demand deposits	20,055	-	-	17,850	-	-	17,745	-	-
Other liabilities	1,848	-	-	2,041	-	-	2,286	-	-
TOTAL LIABILITIES	364,074	13,547	-	336,300	13,621	-	320,296	10,763	-
Stockholders' equity	29,960	-	-	27,914	-	-	25,718	-	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 394,034	$ 13,547	-	$ 364,214	$ 13,621	-	$ 346,014	$ 10,763	-
Net interest income		$ 11,780			$ 9,929			$ 9,600	
Interest rate spread (4)			2.86%			2.57%			2.69%
Net interest margin (5)			3.17%			2.90%			2.96%
Ratio of average interest-earning assets to average interest-bearing liabilities	108.60%			108.29%			108.15%		

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

(2) Includes FHLB stock and related cash dividends.

(3) Includes equity securities and related cash dividends.

(4) Net interest spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net yield on average interest-earning assets represents net income divided by average interest-earning assets.

YIELDS EARNED AND RATES PAID

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

	At June 30,	For The Year Ended June 30,		
	2008	**2008**	2007	2006
Weighted-average yield on loan portfolio	6.62%	7.16%	7.29%	6.70%
Weighted-average yield on mortgage-backed securities	4.78	4.76	4.25	3.81
Weighted-average yield on investment securities (1)	4.30	4.69	4.45	4.07
Weighted-average yield on other interest-earning assets	0.39	1.29	1.22	2.77
Weighted-average yield on all interest-earning assets	6.31	6.82	6.87	6.27
Weighted-average rate paid on deposits	2.84	3.62	3.86	3.06
Weighted-average rate paid on securities sold under agreements to repurchase	1.67	3.31	4.84	3.84
Weighted-average rate paid on FHLB advances	4.91	5.25	5.40	5.28
Weighted-average rate paid on subordinated debt	5.56	7.47	8.24	7.10
Weighted-average rate paid on all interest-bearing liabilities	3.19	3.96	4.30	3.58
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	3.12	2.86	2.57	2.69
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.38	3.17	2.90	2.96

(1) Includes Federal Home Loan Bank stock.

RATE/VOLUME ANALYSIS

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

	Years Ended June 30, **2008** Compared to 2007 Increase (Decrease) Due to				Years Ended June 30, 2007 Compared to 2006 Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:								
Loans receivable (1)	(387)	2,009	(28)	1,594	1,634	1,375	129	3,138
Mortgage-backed securities	67	267	33	367	69	(98)	(11)	(40)
Investment securities (2)	68	(253)	(12)	(197)	95	129	12	236
Other interest-earning deposits	3	10	-	13	(108)	(89)	50	(147)
Total net change in income on interest-earning assets	(249)	2,033	(7)	1,777	1,690	1,317	180	3,187
Interest-bearing liabilities:								
Deposits	(667)	926	(60)	199	1,721	271	94	2,086
Securities sold under agreements to repurchase	(182)	421	(132)	107	104	55	16	175
Subordinated debt	(56)	-	1	(55)	82	-	-	82
FHLB advances	(94)	(237)	6	(325)	66	436	13	515
Total net change in expense on interest-bearing liabilities	(999)	1,110	(185)	(74)	1,973	762	123	2,858
Net change in net interest income	750	923	178	1,851	(283)	555	57	329

(1) Does not include interest on loans placed on nonaccrual status.

(2) Does not include dividends earned on equity securities.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of
Directors and Stockholders
Southern Missouri Bancorp, Inc.
Poplar Bluff, Missouri

We have audited the accompanying consolidated balance sheets of Southern Missouri Bancorp, Inc. as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2008. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Missouri Bancorp, Inc. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri

August 15, 2008

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bkd.com
Beyond Your Numbers

> CONSOLIDATED BALANCE SHEETS <
JUNE 30, 2008 AND 2007

Southern Missouri Bancorp, Inc.

Assets		**2008**		2007
Cash and cash equivalents	$	6,042,408	$	7,330,966
Interest-bearing time deposits		1,980,000		-
Available for sale securities (Note 2)		39,915,280		34,883,588
Stock in FHLB of Des Moines		3,323,700		3,070,600
Loans, net of allowance for loan losses of $3,567,203 and $2,537,659 at June 30, 2008 and 2007, respectively (Note 3)		343,069,775		312,062,967
Accrued interest receivable		3,011,777		2,248,064
Premises and equipment, net (Note 4)		8,204,631		8,650,673
Bank owned life insurance - cash surrender value		7,289,819		6,998,565
Intangible assets, net		1,837,903		2,093,160
Prepaid expenses and other assets		3,145,090		2,588,212
TOTAL ASSETS	$	417,820,383	$	379,926,795

Liabilities and Stockholders' Equity				
Deposits (Note 5)	$	292,257,045	$	270,088,096
Securities sold under agreements to repurchase (Note 6)		21,803,513		17,758,364
Advances from FHLB of Des Moines (Note 7)		64,050,000		54,000,000
Accounts payable and other liabilities		821,407		742,816
Accrued interest payable		1,199,769		1,406,280
Subordinated debt (Note 8)		7,217,000		7,217,000
TOTAL LIABILITIES		387,348,734		351,212,556
Commitments and contingencies (Note 13)		-		-
Preferred stock, $.01 par value; 500,000 shares authorized; none issued or outstanding		-		-
Common stock, $.01 par value; 4,000,000 shares authorized; 2,957,226 shares issued		29,572		29,572
Additional paid-in capital		16,675,839		17,389,156
Retained earnings		27,364,219		24,634,854
Treasury stock of 766,393 shares in 2008 and 743,250 shares in 2007, at cost		(13,002,803)		(12,990,541)
Accumulated other comprehensive loss - AFS securities		(626,673)		(348,802)
Accumulated other comprehensive income - FAS 158		31,495		-
TOTAL STOCKHOLDERS' EQUITY		30,471,649		28,714,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	417,820,383	$	379,926,795

See accompanying notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF INCOME <
YEARS ENDED JUNE 30, 2008, 2007 AND 2006

Southern Missouri Bancorp, Inc.

		2008	2007	2006
Interest income:				
Loans		$ 23,285,907	$ 21,691,579	$ 18,554,139
Investment securities		1,058,742	1,255,676	1,020,140
Mortgage-backed securities		923,039	556,235	596,065
Other interest-earning assets		58,992	46,144	193,301
	TOTAL INTEREST INCOME	25,326,680	23,549,634	20,363,645
Interest expense:				
Deposits		9,251,569	9,052,748	6,966,798
Securities sold under agreements to repurchase		681,817	574,570	400,097
Advances from FHLB of Des Moines		3,074,378	3,398,868	2,884,426
Subordinated debt		539,017	594,357	512,074
	TOTAL INTEREST EXPENSE	13,546,781	13,620,543	10,763,395
	NET INTEREST INCOME	11,779,899	9,929,091	9,600,250
Provision for loan losses (Note 3)		940,000	605,000	555,000
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,839,899	9,324,091	9,045,250
Noninterest income:				
Net gains on sales of available for sale securities		6,084	-	-
Customer service charges		1,257,525	1,140,474	1,211,084
Loan late charges		142,232	124,076	119,762
Increase in cash surrender value of bank owned life insurance		291,254	263,210	249,598
Other		715,016	679,038	563,047
	TOTAL NONINTEREST INCOME	2,412,111	2,206,798	2,143,491
Noninterest expense:				
Compensation and benefits		4,428,909	4,006,971	3,685,388
Occupancy and equipment		1,525,999	1,432,659	1,375,670
Deposit insurance premium		30,393	31,022	30,583
Professional fees		223,136	246,271	173,685
Advertising		176,479	224,438	187,632
Postage and office supplies		275,585	298,440	294,888
Amortization of intangible assets		255,258	255,258	255,258
Other		947,968	962,959	1,024,826
	TOTAL NONINTEREST EXPENSE	7,863,727	7,458,018	7,027,930
	INCOME BEFORE INCOME TAXES	5,388,283	4,072,871	4,160,811
Income taxes (Note 10)				
Current		2,278,803	1,307,458	1,673,184
Deferred		(504,000)	(163,000)	(296,539)
		1,774,803	1,144,458	1,376,645
	NET INCOME	$ 3,613,480	$ 2,928,413	$ 2,784,166
Basic earnings per common share		$ 1.64	$ 1.32	$ 1.25
Diluted earnings per common share		$ 1.63	$ 1.29	$ 1.24

See accompanying notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY <
YEARS ENDED JUNE 30, 2008, 2007 AND 2006

Southern Missouri Bancorp, Inc.

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Employee Benefits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE AT JUNE 30, 2005	$ 29,572	$ 17,363,542	$ 20,531,752	$ (12,702,489)	$ (45,763)	$ (173,115)	$ 25,003,499
Net income			2,784,166				2,784,166
Change in unrealized loss on available for sale securities						(517,210)	(517,210)
TOTAL COMPREHENSIVE INCOME							2,266,956
Reclassification of unearned compensation in accordance with adoption of SFAS No. 123R		(45,763)			45,763		-
Dividends paid ($.36 per share)			(804,038)				(804,038)
SOP expense		51,473					51,473
MRP expense		10,890					10,890
Tax benefit of MRP		2,599					2,599
Exercise of stock options		(28,120)		50,968			22,848
BALANCE AT JUNE 30, 2006	$ 29,572	$ 17,354,621	$ 22,511,880	$ (12,651,521)	$ -	$ (690,325)	$ 26,554,227
Net income			2,928,413				2,928,413
Change in unrealized gain on available for sale securities						341,523	341,523
TOTAL COMPREHENSIVE INCOME							3,269,936
Purchases of treasury stock				(397,020)			(397,020)
Dividends paid ($.36 per share)			(805,439)				(805,439)
SOP Expense		50,067					50,067
MRP expense		13,147					13,147
Tax benefit of MRP		3,321					3,321
Exercise of stock options		(32,000)		58,000			26,000
BALANCE AT JUNE 30, 2007	$ 29,572	$ 17,389,156	$ 24,634,854	$ (12,990,541)	$ -	$ (348,802)	$ 28,714,239
Net income			3,613,480				3,613,480
Change in unrealized loss on available for sale securities						(277,871)	(277,871)
Defined benefit pension plan net gain						31,495	31,495
TOTAL COMPREHENSIVE INCOME							3,367,104
Purchases of treasury stock				(1,364,279)			(1,364,279)
Dividends paid ($.40 per share)			(884,115)				(884,115)
SOP Expense		48,481					48,481
MRP expense		19,777					19,777
Tax benefit of MRP		4,817					4,817
Exercise of stock options		(786,392)		1,352,017			565,625
BALANCE AT JUNE 30, 2008	$ 29,572	$ 16,675,839	$ 27,364,219	$ (13,002,803)	$ -	$ (595,178)	$ 30,471,649

See accompanying notes to consolidated financial statements.

> CONSOLIDATED STATEMENTS OF CASH FLOWS <
YEARS ENDED JUNE 30, 2008, 2007 AND 2006

Southern Missouri Bancorp, Inc.

Cash flows from operating activities:	**2008**	2007	2006
Net income	$ 3,613,480	$ 2,928,413	$ 2,784,166
Items not requiring (providing) cash:			
Depreciation	680,693	713,774	642,449
SOP, MRP expense and ESOP expense	73,075	66,535	62,364
Net realized gains on sale of available for sale securities	(6,084)	-	-
(Gain) Loss on sale of foreclosed assets	(18,455)	(1,035)	29,938
Amortization of intangible assets	255,258	255,258	255,258
Increase in cash surrender value of bank owned life insurance	(291,254)	(263,210)	(249,598)
Provision for loan losses	940,000	605,000	555,000
Amortization of premiums and discounts on securities	(52,965)	(9,373)	36,598
Deferred income taxes	(504,000)	(163,000)	(296,539)
Changes in:			
Accrued interest receivable	(763,713)	(346,437)	(561,225)
Prepaid expenses and other assets	49,053	(346,378)	(52,073)
Accounts payable and other liabilities	110,086	160,803	1,194,227
Accrued interest payable	(206,511)	440,422	246,905
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,878,663	$ 4,040,772	$ 4,647,470

Cash flows from investing activities:			
Net change in interest-bearing deposits	$ (1,980,000)	$ -	$ -
Net increase in loans	(32,445,458)	(31,877,876)	(14,094,508)
Proceeds from sales of available for sale securities	233,500	-	-
Proceeds from maturities of available for sale securities	24,698,058	8,919,334	5,007,756
Purchases of available for sale securities	(30,345,266)	(4,849,941)	(9,566,422)
Sale (purchase) of Federal Home Loan Bank stock	(253,100)	(429,300)	479,800
Purchase of premises and equipment	(234,651)	(347,815)	(1,689,261)
Proceeds from sale of vehicle	-	1,867	-
Proceeds from sale of foreclosed and repossessed property	578,367	201,946	34,269
NET CASH USED IN INVESTING ACTIVITIES	$ (39,748,550)	$ (28,381,785)	$ (19,828,366)

See accompanying notes to consolidated financial statements.

Southern Missouri Bancorp, Inc.

Cash flows from financing activities:	**2008**	2007	2006
Net increase in demand deposits and savings accounts	$ 2,405,635	$ 7,025,174	$ 7,741,339
Net increase in certificates of deposit	19,763,314	4,993,903	25,661,983
Net increase in securities sold under agreements to repurchase	4,045,149	6,462,753	538,411
Proceeds from Federal Home Loan Bank advances	353,550,000	388,475,000	36,250,000
Repayments of Federal Home Loan Bank advances	(343,500,000)	(380,475,000)	(51,750,000)
Dividends paid on common stock	(884,115)	(805,439)	(804,038)
Exercise of stock options	565,625	26,000	22,848
Purchases of treasury stock	(1,364,279)	(397,020)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 34,581,329	$ 25,305,371	$ 17,660,543
Increase (Decrease) in cash and cash equivalents	(1,288,558)	964,358	2,479,647
Cash and cash equivalents at beginning of year	7,330,966	6,366,608	3,886,961
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,042,408	$ 7,330,966	$ 6,366,608

Supplemental disclosures of cash flow information:			
Noncash investing and financing activities			
Conversion of loans to foreclosed real estate	$ 654,369	$ 288,577	$ 221,447
Conversion of foreclosed real estate to loans	235,000	52,611	45,000
Cash paid during the period for			
Interest (net of interest credited)	5,050,895	5,223,263	4,602,987
Income taxes	1,965,393	1,472,391	1,090,000

See accompanying notes to consolidated financial statements.

NOTE 1: Organization and Summary of Significant Accounting Policies

Organization. Southern Missouri Bancorp, Inc., a Missouri corporation (the Company) was organized in 1994 and is the parent company of Southern Missouri Bank & Trust (the Bank). Substantially all of the Company's consolidated revenues are derived from the operations of the Bank, and the Bank represents substantially all of the Company's consolidated assets and liabilities.

Basis of Financial Statement Presentation. The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. Economic risk is comprised of interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities reprice on a different basis than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the value of the Company's investment in real estate.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents includes cash, due from depository institutions and interest-bearing deposits in other depository institutions with original maturities of three months or less. Interest-bearing deposits in other depository institutions were $5,656,273 and $4,394,010 at June 30, 2007 and 2008, respectively.

Available for Sale Securities. Available for sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future are carried at fair value. Unrealized gains and losses, net of tax, are reported in accumulated other comprehensive loss, a component of stockholders' equity. All securities have been classified as available for sale.

Premiums and discounts on debt securities are amortized or accreted as adjustments to income over the estimated life of the security using the level yield method. Realized gains or losses on the sale of securities is based on the specific identification method. The fair value of securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The Company does not invest in collateralized mortgage obligations that are considered high risk.

Federal Home Loan Bank Stock. The Bank is a member of the Federal Home Loan Bank (FHLB) system. Capital stock of the FHLB is a required investment based upon a predetermined formula and is carried at cost.

Loans. Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees.

Interest on loans is accrued based upon the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's judgment, the collectibility of interest or principal in the normal course of business is doubtful. A loan is considered delinquent when a payment has not been made by the contractual due date. Interest income previously accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Cash receipts on a nonaccrual loan are applied to principal and interest in accordance with its contractual terms unless full payment of principal is not expected, in which case cash receipts, whether designated as principal or interest, are applied as a reduction of the carrying value of the loan. A nonaccrual loan is generally returned to accrual status when principal and interest payments are current, full collectibility of principal and interest is reasonably assured and a consistent record of performance has been demonstrated.

The allowance for losses on loans represents management's best estimate of losses probable in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries. Loans are charged off in the period deemed uncollectible. Recoveries of loans previously charged off are recorded when received. The provision for losses on loans is determined based on management's assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

Valuation allowances are established for impaired loans for the difference between the loan amount and fair value of collateral less estimated selling costs. Impairment losses are recognized through an increase in the allowance for loan losses.

Loans are considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Foreclosed Real Estate. Real estate acquired by foreclosure or by deed in lieu of foreclosure is initially recorded at the lower of cost or fair value less estimated selling costs. Costs for development and improvement of the property are capitalized.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less estimated selling costs.

Loans to facilitate the sale of real estate acquired in foreclosure are discounted if made at less than market rates. Discounts are amortized over the fixed interest period of each loan using the interest method.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and include expenditures for major betterments and renewals. Maintenance, repairs, and minor renewals are expensed as incurred. When property is retired or sold, the retired asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss taken into income. The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Depreciation is computed by use of straight-line and accelerated methods over the estimated useful lives of the assets. Estimated lives are generally 20 to 40 years for premises, and five to seven years for equipment.

Intangible Assets. The Bank adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. Intangible assets acquired through the purchase of branches were excluded from the scope of SFAS 142. In October 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 147, Acquisitions of Certain Financial Institutions. SFAS 147 clarified that the carrying amount of an unidentified intangible asset should continue to be amortized. The Bank's gross amount of this intangible asset at June 30, 2008 and 2007 was $3,837,416 and $3,837,416, respectively, with accumulated amortization of $1,999,513 and $1,744,256, respectively. The intangible asset is being amortized over 15 years with amortization expense over the next five years expected to be $255,258 per year.

Income Taxes. The Company and its subsidiary file consolidated income tax returns. Deferred assets and liabilities are recognized for the tax effects of differences between the financial reporting bases and income tax bases of the Company's assets and liabilities.

Incentive Plan. The Company accounts for its management and recognition plan (MRP) in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment". The aggregate purchase price of all shares owned by the incentive plan is reflected as a reduction of stockholders' equity. Compensation expense is based on the market price of the Company's stock on the date the shares are granted and is recorded over the vesting period. The difference between the aggregate purchase price and the fair value on the date the shares are considered earned is recorded as an adjustment to additional paid in capital.

Outside Directors' Retirement. The Bank adopted a directors' retirement plan in April 1994 for outside directors. The directors' retirement plan provides that each non-employee director (participant) shall receive, upon termination of service on the Board on or after age 60, other than termination for cause, a benefit in equal annual installments over a five year period. The benefit will be based upon the product of the participant's vesting percentage and the total Board fees paid to the participant during the calendar year preceding termination of service on the Board. The vesting percentage shall be determined based upon the participant's years of service on the Board, whether before or after the reorganization date.

In the event that the participant dies before collecting any or all of the benefits, the Bank shall pay the participant's beneficiary. No benefits shall be payable to anyone other than the beneficiary, and shall terminate on the death of the beneficiary.

Stock Options. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," which requires the compensation costs related to share-based payment transactions to be recognized in financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the vesting period during which an employee provides service in exchange for the award. SFAS No. 123R was adopted during the first quarter of fiscal 2006 for the Company primarily due to the transition from a small business filer to a full filer; stock-based compensation has been recognized for all stock options granted or modified after July 1, 2005. In addition, stock options not vested on July 1, 2005, are being recognized in expense over the remaining vesting period.

Employee Stock Ownership Plan. The Company accounts for its employee stock ownership plan (ESOP) in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6.

As of June 30, 2005, the ESOP shares were fully distributed and the Bank began purchasing additional shares under the ESOP plan.

Earnings Per Share. Basic income per share is computed using the weighted-average number of common shares outstanding. Diluted income per share includes the effect of all dilutive potential common shares (primarily stock options) outstanding during each year.

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

Reclassification. Certain amounts included in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP, and expands disclosure requirements about fair value measurements. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, meaning it is effective for the Company on July 1, 2008, and is not expected to have a material effect on the Company's consolidated financial statements.

In February 2007, FASB *issued* SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses for which the fair value option has been elected in earnings. The Statement's objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, meaning it is

effective for the company beginning July 1, 2008, and is not expected to have a material effect on the Company's consolidated financial statements.

In December 2007, FASB issued SFAS No. 141(revised), "Business Combinations". The Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. The Statement also changes the accounting for negative goodwill arising from a bargain purchase, requiring recognition in earnings instead of allocation to assets acquired. For business combinations achieved in stages (step acquisitions), the assets and liabilities must be recognized at the full amounts of their fair values, while under former guidance the entity was acquired in a series of purchases, with costs and fair values being identified and measured at each step. The Statement applies to business combinations occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, meaning it is effective for the Company beginning July 1, 2009.

Also in December 2007, FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51." The Statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Statement establishes a single method of accounting for changes in a parent's ownership interest if the parent retains its controlling interest, deeming these to be equity transactions. The Statement is effective for annual periods beginning after December 15, 2008, meaning it is effective for the Company July 1, 2009. The Company does not expect adoption of the Statement to have a significant effect on its consolidated financial statements.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133." This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how these activities affect its financial position, financial performance, and cash flows. The Statement is effective for financial statements issued for fiscal years and interim period beginning after November 15, 2008, meaning it is effective for the Company beginning July 1, 2009. The Company does not expect adoption of the Statement to have a significant effect on its consolidated financial statements.

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," on July 1, 2007. Implementation of the new Standard did not have a material impact on the Company's consolidated financial statements. The Company files income tax returns in the U.S. federal jurisdiction and the state of Missouri. As of June 30, 2008, the open tax years under FIN 48 are 2007, 2006, and 2005. These tax years correspond to our fiscal years ended 2008, 2007, and 2006.

In September 2006, the Emerging Issues Task Force (EITF) Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," was ratified.

This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires the employer to recognize a liability for future benefits payable to the employee under these agreements. The effects of applying this Issue must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. The consensus in this Issue is effective for fiscal years beginning after December 15, 2007, meaning it is effective for the Company beginning July 1, 2008. The Company does not expect adoption of the Issue to have a significant effect on its consolidated financial statements.

Effective November 17, 2006, the FDIC implemented a one-time credit of $4.7 billion to eligible institutions. The purpose of the credit is to recognize contributions made by certain institutions to capitalize the Bank Insurance Fund and the Savings Association Insurance Fund, which have now been merged into the Deposit Insurance Fund (DIF). The Bank is an eligible institution and received notice from the FDIC that its share of the credit was $169,000. The amount was not reflected in the Company's financial statements as it represented contingent future credits against future insurance assessment payments. As of June 30, 2008, substantially all of the credit has been absorbed, and the Company anticipates incurring additional expenses for DIF assessments beginning in the second quarter of fiscal 2009.

NOTE 2: Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of securities available for sale consisted of the following:

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities:				
U.S. government and Federal agency obligations	$ 3,992,999	$ 52,103	$ (25,660)	$ 4,019,442
Obligations of states and political subdivisions	6,299,763	7,195	(276,075)	6,030,883
FHLMC preferred stock	304,125	-	(8,925)	295,200
Other securities	1,889,424	-	(325,979)	1,563,445
TOTAL INVESTMENT SECURITIES	12,486,311	59,298	(636,639)	11,908,970
Mortgage-backed securities:				
FHLMC certificates	13,114,487	2,658	(291,529)	12,825,616
GNMA certificates	127,583	108	(807)	126,884
FNMA certificates	11,247,033	11,441	(165,909)	11,092,565
CMOs issued by government agencies	3,934,614	49,547	(22,916)	3,961,245
TOTAL MORTGAGE-BACKED SECURITIES	28,423,717	63,754	(481,161)	28,006,310
TOTAL	$ 40,910,028	$ 123,052	$ (1,117,800)	$ 39,915,280

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment securities:				
U.S. government and Federal agency obligations	$ 21,709,953	$ -	$ (220,616)	$ 21,489,337
Obligations of states and political subdivisions	2,015,783	24,276	(24,550)	2,015,509
Other securities	661,025	-	(5,000)	656,025
TOTAL INVESTMENT SECURITIES	24,386,761	24,276	(250,166)	24,160,871
Mortgage-backed securities:				
FHLMC certificates	1,229,108	210	(46,939)	1,182,379
GNMA certificates	155,726	722	(104)	156,344
FNMA certificates	4,386,823	2,913	(176,449)	4,213,287
CMOs issued by government agencies	5,278,853	-	(108,146)	5,170,707
TOTAL MORTGAGE-BACKED SECURITIES	11,050,510	3,845	(331,638)	10,722,717
TOTAL	$ 35,437,271	$ 28,121	$ (581,804)	$ 34,883,588

The amortized cost and estimated fair value of investment and mortgage-backed securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2008	
	Amortized Cost	Estimated Fair Value
Available for Sale		
Within one year	$ 249,720	$ 254,280
After one but less than five years	1,637,451	1,663,035
After five but less than 10 years	2,995,918	2,990,488
After 10 years	7,603,222	7,001,167
Total investment securities	12,486,311	11,908,970
Mortgage-backed securities	28,423,717	28,006,310
TOTAL	$ 40,910,028	$ 39,915,280

The carrying value of investment and mortgage-backed securities pledged as collateral to secure public deposits and securities sold under agreements to repurchase amounted to $37,886,510 and $33,455,667 and at June 30, 2008 and 2007, respectively.

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2008 was $32 million, which is approximately 79.5% of the Bank's available for sale investment portfolio, as compared to $33 million or approximately 94.9% of the Bank's available for sale investment portfolio at June 30, 2007. These declines primarily resulted from recent changes in the credit markets.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2008 and 2007.

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
For the year ended June 30, 2008						
U.S. government agencies	$ 1,971,482	$ 25,660	$ -	$ -	$ 1,971,482	$ 25,660
Mortgage-backed securities	21,382,034	449,610	1,407,530	31,551	22,789,564	481,161
Other securities	6,976,246	610,979	-	-	6,976,246	610,979
Total temporarily impaired securities	$30,329,762	$1,086,249	$1,407,530	$31,551	$31,737,292	$1,117,800

Description of Securities	Less than 12 months Fair Value	Unrealized Losses	12 months or more Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
For the year ended June 30, 2007						
U.S. Treasury	$-	$-	$500,938	$890	$500,938	$890
U.S. government agencies	2,949,308	27,978	18,039,092	191,748	20,988,400	219,726
Mortgage-backed securities	2,125,963	27,702	7,760,000	303,936	9,885,963	331,638
Other securities	1,483,269	21,152	253,913	8,398	1,737,182	29,550
Total temporarily impaired securities	$6,558,540	$76,832	$26,553,943	$504,972	$33,112,483	$581,804

NOTE 3: Loans

Loans are summarized as follows:

	June 30 **2008**	2007
Real estate loans:		
Residential	$ 149,340,248	$ 135,287,992
Construction	13,945,027	7,981,390
Commercial	85,859,482	77,723,332
Consumer loans	21,524,166	19,416,309
Commercial	81,574,995	76,053,308
	352,243,918	316,462,331
Loans in process	(5,667,898)	(1,913,191)
Deferred loan fees, net	60,958	51,486
Allowance for loan losses	(3,567,203)	(2,537,659)
TOTAL	$ 343,069,775	$ 312,062,967

Adjustable rate loans included in the loan portfolio amounted to $118,302,376 and $113,874,188 at June 30, 2008 and 2007, respectively.

One- to four-family residential real estate loans amounted to $136,732,435 and $129,920,634 at June 30, 2008 and 2007, respectively.

Real estate construction loans are secured principally by single and multi-family dwelling units.

Commercial real estate loans are secured principally by commercial buildings, motels, medical centers, churches, restaurants and farmland.

Following is a summary of activity in the allowance for loan losses:

	June 30		
	2008	2007	2006
Balance, beginning of period	$ 2,537,659	$ 2,058,144	$ 2,016,514
Loans charged-off	(93,755)	(162,719)	(577,938)
Recoveries of loans previously charged-off	183,299	37,234	64,568
Net recoveries (charge-offs)	89,544	(125,485)	(513,370)
Provision charged to expense	940,000	605,000	555,000
Balance, end of period	$ 3,567,203	$ 2,537,659	$ 2,058,144

Total loans past due 90 days or more and still accruing interest amounted to $6,000 and $24,000 at June 30, 2008 and 2007, respectively.

The Company had ceased recognition of interest income on loans with a book value of $0 and $2,000 at June 30, 2008 and 2007, respectively. The average balance of nonaccrual loans for the years ended June 30, 2008, 2007, and 2006 was $28,000, $47,000, and $272,000, respectively. The allowance for losses allocated to nonaccrual loans at June 30, 2008 and 2007 was immaterial. Interest income recognized on these loans for the years ended June 30, 2008, 2007, and 2006 was immaterial. Gross interest income would have been immaterial for the years ended June 30, 2008, 2007, and 2006 if interest payments had been received in accordance with the original terms. The Company is not committed to lend additional funds to customers whose loans have been placed on nonaccrual status.

Of the above nonaccrual loans at June 30, 2008 and 2007, none were considered to be impaired. There were no impaired loans during the years ended June 30, 2008 and 2007.

Following is a summary of loans to directors, executive officers and loans to corporations in which executive officers and directors have a substantial interest:

Balance, June 30, 2007	$8,043,723
Additions	2,156,449
Repayments	(1,739,839)
Balance, June 30, 2008	$8,460,333

These loans were made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons.

NOTE 4: Premises and Equipment

Following is a summary of premises and equipment:

	June 30	
	2008	2007
Land	$ 3,448,083	$ 3,418,074
Buildings and improvements	6,016,459	5,884,266
Furniture, fixtures and equipment	4,598,236	4,567,267
Automobiles	32,376	32,376
	14,095,154	13,901,983
Less accumulated depreciation	(5,890,523)	(5,251,310)
TOTAL	$ 8,204,631	$ 8,650,673

NOTE 5: Deposits

Deposits are summarized as follows:

	June 30	
	2008	2007
Noninterest-bearing accounts	$ 19,220,977	$ 22,275,977
NOW accounts	37,150,005	31,122,878
Money market deposit accounts	12,104,527	7,211,517
Savings accounts	73,423,195	78,908,351
TOTAL TRANSACTION ACCOUNTS	$ 141,898,704	$ 139,518,723
Certificates:		
1.00 - 1.99%	$ 7,134,672	-
2.00 - 2.99%	33,105,497	1,086,670
3.00 - 3.99%	50,555,205	6,557,958
4.00 - 4.99%	48,413,758	27,805,696
5.00 - 5.99%	11,149,209	95,119,049
Total certificates, 3.62% and 4.94%, respectively	150,358,341	130,569,373
TOTAL DEPOSITS	$ 292,257,045	$ 270,088,096

The aggregate amount of certificates of deposit with a minimum denomination of $100,000 was $58,181,336 and $41,448,245 at June 30, 2008 and 2007, respectively.

Certificate maturities at June 30, 2008 are summarized as follows:

July 1, 2008 to June 30, 2009	$130,025,135
July 1, 2009 to June 30, 2010	7,910,035
July 1, 2010 to June 30, 2011	5,546,812
July 1, 2011 to June 30, 2012	2,719,343
July 1, 2012 to June 30, 2013	4,157,016
Thereafter	-
TOTAL	$150,358,341

NOTE 6: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as borrowings, generally mature within one to four days. The following table presents balance and interest rate information on the securities sold under agreements to repurchase.

The market value of the securities underlying the agreements at June 30, 2008 and 2007, was $24,854,028 and $18,307,912, respectively. The securities sold under agreements to repurchase are under the Company's control.

	June 30	
	2008	2007
Year-end balance	$ 21,803,513	$ 17,758,364
Average balance during the year	20,567,605	11,862,732
Maximum month-end balance during the year	24,659,429	17,758,364
Average interest during the year	3.31%	4.84%
Year-end interest rate	1.67%	4.90%

NOTE 7: Advances from Federal Home Loan Bank

Advances from Federal Home Loan Bank are summarized as follows:

Maturity	Call Date or Quarterly Thereafter	Interest Rate	June 30 **2008**	2007
Overnight borrowings and short-term repurchase agreements	-	2.81%	$5,550,000	$-
Overnight borrowings and short-term repurchase agreements	-	5.48%	-	$7,000,000
08-30-07	-	3.96%	-	1,000,000
10-17-07	-	4.91%	-	2,000,000
10-26-09	09-01-03	5.58%	10,000,000	10,000,000
01-20-10	07-20-03	5.85%	5,000,000	5,000,000
10-27-10	10-27-03	5.94%	9,000,000	9,000,000
12-09-10	12-09-05	6.01%	10,000,000	10,000,000
10-30-12	-	4.87%	3,000,000	-
04-01-13	-	3.65%	3,000,000	-
01-30-15	-	3.75%	3,000,000	-
11-29-16	11-29-07	3.93%	5,000,000	5,000,000
11-29-16	11-29-11	4.42%	5,000,000	5,000,000
11-20-17	11-22-10	3.87%	3,000,000	-
11-29-17	11-29-12	4.07%	2,500,000	-
		TOTAL	$64,050,000	$54,000,000
Weighted-average rate			4.91%	5.42%

In addition to the above advances, the Bank had an available line of credit amounting to $37,380,792 and $42,384,625, with FHLB at June 30, 2008 and 2007, respectively.

Advances from FHLB of Des Moines are secured by FHLB stock and one- to four-family mortgage loans of $76,860,000 and $64,800,000 at June 30, 2008 and 2007, respectively. The principal maturities of FHLB advances at June 30, 2008, are at right:

FHLB Advance Maturities	
July 1, 2008 to June 30, 2009	$ 5,550,000
July 1, 2009 to June 30, 2010	15,000,000
July 1, 2010 to June 30, 2011	19,000,000
July 1, 2011 to June 30, 2012	-
July 1, 2012 to June 30, 2013	6,000,000
July 1, 2013 and thereafter	18,500,000
total	$64,050,000

NOTE 8: Subordinated Debt

Southern Missouri Statutory Trust I issued $7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of $1,000 per share in March 2004. The securities are due in 30 years, redeemable after five years and bear interest at a floating rate based on LIBOR. At June 30, 2008, the current rate was 5.56%. The securities represent undivided beneficial interests in the trust, which was established by Southern Missouri for the purpose of issuing the securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Southern Missouri Statutory Trust I used the proceeds from the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures of Southern Missouri Bancorp. Southern Missouri Bancorp, Inc. used its net proceeds for working capital and investment in its subsidiaries.

NOTE 9: Employee Benefits

401(k). The Bank has a 401(k) profit sharing plan that covers substantially all eligible employees. Contributions to the plan are at the discretion of the Board of Directors of the Bank. During 2008, 2007, and 2006, there were no contributions made to the plan.

Employee Stock Ownership Plan (ESOP). The Bank established a tax-qualified ESOP in April 1994. The plan covers substantially all employees who have attained the age of 21 and completed one year of service.

Benefits are vested over five years. Forfeitures are allocated on the same basis as other contributions. Benefits are payable upon a participant's retirement, death, disability or separation of service. The Bank makes discretionary contributions to the ESOP. The ESOP expense for 2008, 2007, and 2006 was $200,000, $190,000, and $180,000, respectively.

The number of ESOP shares at June 30, 2008 and 2007 were as follows:

	2008	2007
Allocated shares	173,719	160,270
Unreleased shares	-	-
TOTAL ESOP SHARES	173,719	160,270

Management Recognition Plan (MRP). The Bank adopted an MRP for the benefit of non-employee directors and two MRPs for officers and key employees (who may also be directors) in April 1994. During 2004, the Bank granted 5,000 MRP shares to employees; during 2007, an additional 1,000 shares were granted; and during 2008, an additional 2,500 shares were awarded. The shares granted are in the form of restricted stock payable at the rate of 20% of such shares per year. During 2008, 1,300 MRP shares vested, which had been awarded in 2004, 2007, and 2008. Compensation expense, in the amount of the fair market value of the common stock at the date of grant, will be recognized pro-rata over the five years during which the shares are payable.

The Board of Directors can terminate the MRPs at any time, and if it does so, any shares not allocated will revert to the Company. The MRP expense for 2008, 2007, and 2006, was $19,777, $13,147, and $10,890, respectively.

Stock Option Plan. The Company adopted a stock option plan in April 1994. The purpose of the plan was to provide additional incentive to certain directors, officers and key employees of the Bank. In October 1999, the stockholders voted to increase the number of shares reserved for options by 67,932 shares. The stock options were granted at the fair market value of the common stock on the date of the grant. Through June 30, 1999, all options granted were 100% vested at the grant date. For shares granted after June 30, 1999, the vesting period ranged from the grant date up to a five year period. All options expire ten years from the date of the grant. The 1994 stock option plan expired in April 2004. In October 2003, a new stock option and incentive plan was adopted ("2003 Plan"). Under the 2003 Plan, the Company has granted 70,500 options to employees and directors.

In December, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment" (SFAS 123R). SFAS 123R requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant, and eliminates the choice to account for employee stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), which is how the Company previously accounted for its stock options. The Company adopted SFAS 123R effective July 1, 2005. As a result of adopting SFAS 123R, incremental stock-based compensation expense recognized during fiscal 2006 was $53,106.

As of June 30, 2008, there was $53,000 in remaining unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining weighted average vesting period. The aggregate intrinsic value of stock options outstanding at June 30, 2008, was $320,000. The aggregate intrinsic value of stock options exercisable at June 30, 2008, was $313,000. The intrinsic value of options exercised in fiscal 2008 was $327,000. The intrinsic value of options vested in fiscal 2008 was $4,000.

Changes in options outstanding were as follows:

	Year Ended June 30											
	2008				2007				2006			
		Weighted Average Price		Number		Weighted Average Price		Number		Weighted Average Price		Number
Outstanding at beginning of year	$	10.73		176,500	$	10.64		180,500	$	10.70		188,515
Granted		-		-		-		-		14.26		5,000
Exercised		8.08		(70,000)		6.50		(4,000)		6.50		(3,515)
Forfeited		15.23		(2,000)		-		-		15.23		(9,500)
Outstanding at year-end	$	12.43		104,500	$	10.73		176,500	$	10.64		180,500
Options exercisable at year-end	$	11.88		86,800	$	9.75		144,100	$	9.10		134,400

The following is a summary of the assumptions used in the Black-Scholes pricing model in determining the fair values of options granted during fiscal years 2008, 2007, and 2006 (no options were granted in fiscal 2008 or 2007):

	2008	2007		2006
Assumptions:				
Expected dividend yield	-	-		2.52%
Expected volatility	-	-		18.89%
Risk-free interest rate	-	-		3.98%
Weighted-average expected life	-	-		5 years
Weighted-average fair values options granted during the year	-	-	$	3.43

The following table summarizes information about stock options under the plan outstanding at June 30, 2008:

			Options Outstanding			Options Exercisable		
	Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$	6.5000	4,000	17.7 mo.	$	6.5000	4,000	$	6.5000
	6.7500	30,000	17.3 mo.		6.7500	30,000		6.7500
	15.2300	50,500	70.6 mo.		15.2300	41,800		15.2300
	15.3000	15,000	75.7 mo.		15.3000	9,000		15.3000
	14.2600	5,000	86.5 mo.		14.2600	2,000		14.2600

NOTE 10: Income Taxes

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

	2008	2007
Deferred tax assets:		
Provision for losses on loans	$ 1,373,373	$ 900,049
Unrealized loss of available for sale securities	368,046	204,851
Accrued compensation and benefits	121,319	154,965
Other	64,532	65,698
Total deferred tax assets	1,927,270	1,325,563
Deferred tax liabilities:		
FHLB stock dividends	188,612	188,612
Purchase accounting adjustments	71,062	63,694
Depreciation	211,550	284,405
Total deferred tax liabilities	471,224	536,711
NET DEFERRED TAX ASSET	$ 1,456,046	$ 788,852

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	Year Ended June 30		
	2008	2007	2006
Tax at statutory Federal rate	$ 1,832,016	$ 1,384,776	$ 1,414,675
Increase (reduction) in taxes resulting from:			
Nontaxable municipal income	(56,886)	(31,983)	(17,879)
State tax, net of Federal benefit	74,951	52,006	106,194
Cash surrender value of bank owned life insurance	(99,026)	(89,491)	(84,863)
Other, net	23,748	(170,850)	(41,482)
ACTUAL PROVISION	$ 1,774,803	$ 1,144,458	$ 1,376,645

NOTE 11: Other Comprehensive (Loss) Income

Other comprehensive (loss) income components are as follows:

	Year Ended June 30		
	2008	2007	2006
Unrealized (losses) gains on available for sale securities:			
Unrealized holding (losses) gains arising during period	$ (434,981)	$ 542,101	$ (820,968)
Less: reclassification adjustments for losses realized in net income	(6,084)	-	-
Total unrealized (losses) gains on securities	(441,065)	542,101	(820,968)
Defined benefit pension plan net gain	31,495	-	
Income tax benefit (expense)	163,194	(200,578)	303,758
Other comprehensive (loss) income	$ (246,376)	$ 341,523	$ (517,210)

NOTE 12: Stockholders' Equity and Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average total assets (as defined). Management believes, as of June 30, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Company's only significant activity is ownership of the Bank, and, therefore, its capital, capital ratios, and minimum required levels of capital are materially the same as the Bank's.

The following table summarizes the Bank's actual and required regulatory capital:

(dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2008	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	$ 36,302	11.79%	$ 24,631	≥8.00%	$ 30,789	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	32,735	10.63%	12,315	≥4.00%	18,473	≥6.00%
Tier I Capital (to Average Assets)	32,735	8.08%	16,214	≥4.00%	20,267	≥5.00%
As of June 30, 2007						
Total Capital (to Risk-Weighted Assets)	$ 32,420	11.81%	$ 21,954	≥8.00%	$ 27,443	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	29,882	10.89%	10,977	≥4.00%	16,466	≥6.00%
Tier I Capital (to Average Assets)	29,882	8.10%	14,756	≥4.00%	18,445	≥5.00%

The Bank's ability to pay dividends on its common stock to the Company is restricted to maintain adequate capital as shown in the table above.

NOTE 13: Commitments and Credit Risk

Standby Letters of Credit. In the normal course of business, the Bank issues various financial standby, performance standby, and commercial letters of credit for its customers. As consideration for the letters of credit, the institution charges letter of credit fees based on the face amount of the letters and the creditworthiness of the counterparties. These letters of credit are stand-alone agreements, and are unrelated to any obligation the depositor has to the Bank.

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding standby letters of credit amounting to $1.1 million and $696,000 at June 30, 2008 and 2007, respectively, with terms ranging from 12 to 24 months. At June 30, 2008, the Bank's deferred revenue under standby letters of credit agreements was nominal.

Off-balance-sheet and Credit Risk. The Company's Consolidated Financial Statements do not reflect various financial instruments to extend credit to meet the financing needs of its customers.

These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition. Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

The Company had $50.4 million in commitments to extend credit at June 30, 2008, and $36.0 million at June 30, 2007.

At June 30, 2008, total commitments to originate fixed-rate loans with terms in excess of one year were $8.5 million at tax-equivalent rates ranging from 5.0% to 10.0%, with a weighted-average tax-equivalent rate of 6.83%. Commitments to extend credit and standby letters of credit include exposure to some credit loss in the event of nonperformance of the customer. The Company's policies for credit commitments and financial guarantees are the same as those for extension of credit that are recorded in the statements of financial condition. The commitments extend over varying periods of time with the majority being disbursed within a thirty-day period.

The Company grants collateralized commercial, real estate, and consumer loans to customers in Southeast Missouri. Although the Company has a diversified portfolio, loans aggregating $149,340,000 at June 30, 2008, are secured by single and multi-family residential real estate in the Company's primary lending area.

NOTE 14: Earnings Per Share

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

	Year Ended June 30		
	2008	2007	2006
Net income	$3,613,480	$2,928,413	$2,784,166
Denominator for basic earnings per share -			
Weighted-average shares outstanding	2,199,928	2,225,658	2,224,409
Effect of dilutive securities			
Stock options	12,204	38,578	27,852
Denominator for diluted earnings per share	2,212,132	2,264,236	2,252,261
Basic earnings per common share	$ 1.64	$ 1.32	$ 1.25
Diluted earnings per common share	$ 1.63	$ 1.29	$ 1.24

NOTE 15: Disclosures About Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		*(in thousands)*	
Financial Assets				
Cash and cash equivalents	$6,042	$6,042	$7,331	$7,331
Interest-bearing time deposits	1,980	1,980	-	-
Investment and mortgage-backed securities available for sale	39,915	39,915	34,884	34,884
Stock in FHLB	3,324	3,324	3,071	3,071
Loans receivable, net	343,070	344,330	312,063	311,240
Accrued interest receivable	3,012	3,012	2,248	2,248
Bank owned life insurance	7,290	7,290	6,999	6,999
Financial Liabilities				
Deposits	292,257	289,214	270,088	268,236
Securities sold under agreements to repurchase	21,804	21,804	17,758	17,758
Advances from FHLB	64,050	65,968	54,000	54,366
Accrued interest payable	1,200	1,200	1,406	1,406
Subordinated Debt	7,217	7,217	7,217	7,217
Unrecognized financial instruments (net of contract amount)				
Letters of Credit	-	-	-	-
Lines of Credit	-	-	-	-

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents and interest-bearing time deposits are valued at their carrying amounts which approximates fair value.

Fair values of investment and mortgage-backed securities are based on quoted market prices or, if unavailable, quoted market prices of similar securities.

Stock in FHLB is valued at cost which approximates fair value.

Fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations.

Fair value of Bank owned life insurance is equal to the cash surrender value of the underlying life insurance policies.

The carrying amounts of accrued interest approximate their fair values.

Deposits with no defined maturities, such as NOW accounts, savings accounts and money market deposit accounts, are valued at their carrying amount which approximates fair value.

The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

The carrying amounts of securities sold under agreements to repurchase approximate fair value.

Fair value of advances from the FHLB is estimated by discounting maturities using an estimate of the current market for similar instruments.

The fair value of subordinated debt is estimated using rates currently available to the Company for debt with similar terms and maturities.

NOTE 16: Condensed Parent Company Only Financial Statements

The following condensed balance sheets, statements of income and cash flows for Southern Missouri Bancorp, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

Condensed Balance Sheets	June 30 2008	June 30 2007
Assets		
Cash and cash equivalents	$ 1,378,574	$ 1,870,317
Premise and equipment	2,109,667	2,079,658
Other assets	251,752	433,122
Investment in common stock of Bank	33,987,344	31,626,094
TOTAL ASSETS	$ 37,727,337	$ 36,009,191
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	$ 38,688	$ 77,952
Subordinated debt	7,217,000	7,217,000
TOTAL LIABILITIES	7,255,688	7,294,952
Stockholders' equity	30,471,649	28,714,239
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 37,727,337	$ 36,009,191

Condensed Statements of Income	Year Ended June 30 2008	2007	2006
Interest income	$ 23,843	$ 61,165	$ 85,272
Interest expense	539,017	594,357	512,074
Net interest income	(515,174)	(533,192)	(426,802)
Dividends from Bank	1,600,000	1,200,000	1,200,000
Operating expenses	316,897	294,479	301,372
Income before income taxes and equity in undistributed income of the Bank	767,929	372,329	471,826
Income tax benefit	311,000	309,000	279,300
Income before equity in undistributed income of the Bank	1,078,929	681,329	751,126
Equity in undistributed income of the Bank	2,534,551	2,247,084	2,033,040
NET INCOME	$ 3,613,480	$ 2,928,413	$ 2,784,166

Condensed Statements	2008	2007	2006
	Year Ended June 30		
Cash flows from operating activities:			
Net income	$ 3,613,480	$ 2,928,413	$ 2,784,166
Changes in:			
Equity in undistributed income of the Bank	(2,534,551)	(2,247,084)	(2,033,040)
Other adjustments, net	(18,919)	32,480	58,329
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,060,010	713,809	809,455
Cash flows from investing activities:			
Purchase of available for sale securities	-	(1,330,000)	(1,450,000)
Investment in real estate	(30,009)	-	(69,327)
Proceeds from sales and maturities of available for sale securities	161,025	2,618,975	-
NET CASH PROVIDED BY OR (USED IN) INVESTING ACTIVITIES	131,016	1,288,975	(1,519,327)
Cash flows from financing activities:			
Dividends on common stock	(884,115)	(805,439)	(804,038)
Exercise of stock options	565,625	26,000	22,848
Payments to acquire treasury stock	(1,364,279)	(397,020)	-
NET CASH USED IN FINANCING ACTIVITIES	(1,682,769)	(1,176,459)	(781,190)
Net increase (decrease) in cash and cash equivalents	(491,743)	826,325	(1,491,062)
Cash and cash equivalents at beginning of year	1,870,317	1,043,992	2,535,054
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,378,574	$ 1,870,317	$ 1,043,992

NOTE 17: Quarterly Financial Data (Unaudited)

Quarterly operating data is summarized as follows (in thousands):

	June 30, 2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$6,333	$6,377	$6,386	$6,231
Interest expense	3,701	3,606	3,310	2,930
Net interest income	2,632	2,771	3,076	3,301
Provision for loan losses	110	90	350	390
Noninterest income	590	602	601	621
Noninterest expense	1,899	1,978	1,987	2,003
Income before income taxes	1,213	1,305	1,340	1,529
Income tax expense	400	432	442	500
NET INCOME	$813	$873	$898	$1,029

	June 30, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$5,686	$5,802	$5,920	$6,141
Interest expense	3,197	3,388	3,465	3,570
Net interest income	2,489	2,414	2,455	2,571
Provision for loan losses	125	95	100	285
Noninterest income	577	548	516	565
Noninterest expense	1,797	1,803	1,889	1,969
Income before income taxes	1,144	1,064	982	882
Income tax expense	404	341	330	69
NET INCOME	$740	$723	$652	$813

	June 30, 2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	$4,750	$5,016	$5,187	$5,410
Interest expense	2,401	2,690	2,782	2,890
Net interest income	2,349	2,326	2,405	2,520
Provision for loan losses	120	85	80	270
Noninterest income	540	533	505	566
Noninterest expense	1,732	1,729	1,833	1,734
Income before income taxes	1,037	1,045	997	1,082
Income tax expense	356	366	352	303
NET INCOME	$681	$679	$645	$779

> CORPORATE INFORMATION <

CORPORATE HEADQUARTERS
531 Vine Street
Poplar Bluff, Missouri 63901

COMPANY WEBSITE
www.smbtonline.com

SPECIAL COUNSEL
Silver, Freedman & Taff, LLP
Washington, D.C. 20007

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
BKD, LLP
St. Louis, Missouri 63102

COMMON STOCK
Nasdaq Stock Market
Nasdaq Symbol: SMBC

TRANSFER AGENT

Stockholders should report lost stock certificates or direct inquiries concerning dividend payments, change of name, address, or ownership, or consolidation of accounts, to the Company's transfer agent:

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
(800) 368-5948

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Monday, October 20, 2008, at 9:00 a.m., Central Time, at the Greater Poplar Bluff Area Chamber of Commerce Building, 1111 West Pine, Poplar Bluff, Missouri 63901.

ANNUAL REPORT ON FORM 10-K AND OTHER REPORTS

A copy of the Company's annual report on Form 10-K, including financial statement schedules and our quarterly reports as filed with the Securities and Exchange Commission, will be furnished without charge to stockholders as of the record date upon written request to the Secretary, Southern Missouri Bancorp, Inc., 531 Vine Street, Poplar Bluff, Missouri 63901. These documents also may be accessed through Southern Missouri Bank's website at www.smbtonline.com, under the Investor Relations tab.

> DIRECTORS *and* OFFICERS <

Standing: Rebecca Brooks, Douglas Bagby, Charles Moffitt, Sammy Schalk, Ronnie Black

Seated:
Greg Steffens, James Tatum, Samuel Smith, Charles Love

SOUTHERN MISSOURI BANCORP, INC.

Directors

James W. Tatum
Chairman of the Board,
Retired Certified Public Accountant

Samuel H. Smith
Vice-Chairman of the Board,
Engineer and Majority Owner,
S.H. Smith and Company, Inc.

L. Douglas Bagby
City Manager, Poplar Bluff
General Manager,
Municipal Utilities of Poplar Bluff

Ronnie D. Black
Executive Director,
General Association of General Baptists

Sammy A. Schalk
President,
Gamblin Lumber Company

Greg A. Steffens
President and Chief Executive Officer,
Southern Missouri Bancorp, Inc.

Rebecca M. Brooks
Financial Manager,
McLane Transport

Charles R. Love
Certified Public Accountant,
Kraft, Miles and Tatum

Charles R. Moffitt
Agency Manager,
Morse Harwell Jiles
Insurance Agency

Leonard W. Ehlers
Director Emeritus,
Retired Court Reporter,
36th Judicial Circuit

SOUTHERN MISSOURI BANK AND TRUST

Directors

Samuel H. Smith
Chairman of the Board,
Engineer and Majority Owner,
S.H. Smith and Company, Inc.

L. Douglas Bagby
Vice-Chairman of the Board,
City Manager, Poplar Bluff
General Manager,
Municipal Utilities of Poplar Bluff

Ronnie D. Black
Executive Director,
General Association of General Baptists

James W. Tatum

Retired Certified Public Accountant

Sammy A. Schalk
President,
Gamblin Lumber Company

Greg A. Steffens
President and Chief Executive Officer,
Southern Missouri Bancorp, Inc.

Rebecca M. Brooks
Financial Manager,
McLane Transport

Charles R. Love
Certified Public Accountant,
Kraft, Miles and Tatum

Charles R. Moffitt
Agency Manager,
Morse Harwell Jiles
Insurance Agency

Senior Officers

Greg A. Steffens
President and
Chief Executive Officer

Kimberly A. Capps
Chief Operations Officer

William D. Hribovsek
Chief Lending Officer

Matthew T. Funke
Chief Financial Officer

Lora L. Daves
Chief of Credit Administration

SOUTHERN MISSOURI BANCORP, INC.

is a single-bank holding company that has outperformed peers
in ROE and other measures in four out of the last five years.
Our outstanding results this year are in contrast to much of our industry;
we are standing tall in our field.

Southern Missouri Bancorp, Inc. 531 Vine Street Poplar Bluff, Missouri 63901 (573) 778-1800 www.smbtonline.com

Section 6: EX-21

EXHIBIT 21

Parent		
Southern Missouri Bancorp, Inc.		

Subsidiaries (a)	Percentage of Ownership	Jurisdiction or State of Incorporation
Southern Missouri Bank and Trust Co.	100%	Missouri
SMS Financial Services, Inc.(b)	100%	Missouri

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(a) The operation of the Company's wholly owned subsidiaries are included in the Company's Financial Statements contained in Item 7 hereof.
(b) Wholly-owned subsidiary of Southern Missouri Bank and Trust Co.; subsidiary is inactive.

Section 7: EX-23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements on Form S-8 (File No. 333-2320 and File No. 333-127134), of the Southern Missouri Bancorp, Inc. 1994 and 2003 Stock Option Plans, of our report, dated August 15, 2008, on our audits of the consolidated financial statements of Southern Missouri Bancorp, Inc. as of June 30, 2008 and 2007, and for each of the three years in the period ended June 30, 2008, which report is incorporated by reference in this Annual Report on Form 10-K.

/s/ **BKD, LLP**

St. Louis, Missouri
September 29, 2008

bkd.com

501 N. Broadway, Suite 600 St. Louis, MO 63102-2102 314 231-5544 Fax 314 231-9731

Beyond Your Numbers

Section 8: EX-31

EXHIBIT 31

CERTIFICATION

I, Greg A. Steffens, certify that:

1) I have reviewed this annual report on Form 10-K of Southern Missouri Bancorp, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: September 29, 2008

By: /s/ Greg A. Steffens
Greg A. Steffens
President
(Principal Executive and Principal Financial and Accounting Officer)

Section 9: EX-32

EXHIBIT 32

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned hereby certifies in his capacity as an officer of Southern Missouri Bancorp, Inc. (the "Company") that the Annual Report of the Company on Form 10-K for the fiscal year ended June 30, 2008 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: September 29, 2008

By: /s/ Greg A. Steffens
Greg A. Steffens
President
(Principal Executive and Principal Financial and Accounting Officer)