

SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

 x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2006

OR

 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-23406

Southern Missouri Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Missouri

(State or jurisdiction of incorporation)

43-1665523

(IRS employer ID. no.)

531 Vine Street, Poplar Bluff, MO

(Address of principal executive offices)

63901

(Zip code)

(573) 778-1800

Registrant's telephone number, including area code

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. [X] Yes No

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer [X]

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at February 9, 2007
Common Stock, Par Value \$.01	2,236,331 Shares

[Next Page](#)

SOUTHERN MISSOURI BANCORP, INC.
FORM 10-Q

INDEX

PART I.	Financial Information	PAGE NO.
Item 1.	Consolidated Financial Statements	3
	- Consolidated Balance Sheets	3
	- Consolidated Statements of Income and Comprehensive Income	4
	- Consolidated Statements of Cash Flows	5
	- Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	18
Item 4.	Controls and Procedures	20
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	21
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3.	Defaults upon Senior Securities	21
Item 4.	Submission of Matters to a Vote of Security Holders	21
Item 5.	Other Information	21
Item 6.	Exhibits	22
	- Signature Page	22
	- Certifications	23

Next Page

PART I: Item 1: Consolidated Financial Statements**SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND JUNE 30, 2006**

<u>ASSETS</u>	<u>December 31, 2006</u>	<u>June 30, 2006</u>
	(Unaudited)	
Cash and cash equivalents	\$ 9,246,590	\$ 6,366,608
Available for sale securities	37,195,503	38,401,508
Stock in FHLB of Des Moines	3,330,000	2,641,300
Loans receivable, net of allowance for loan losses of \$2,189,976 and \$2,058,144 at December 31, 2006 and June 30, 2006, respectively	293,144,797	280,930,991
Accrued interest receivable	2,119,841	1,955,345
Premises and equipment, net	8,733,406	8,931,178
Bank owned life insurance - cash surrender value	6,865,678	6,735,355
Intangible assets, net	2,220,789	2,348,418
Prepaid expenses and other assets	2,408,657	2,373,025
	<hr/>	<hr/>
Total assets	\$ 365,265,261	\$ 350,683,728
	<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	
Deposits	\$ 251,445,712	\$ 258,069,019
Securities sold under agreements to repurchase	10,134,151	11,295,611
Advances from FHLB of Des Moines	65,550,000	46,000,000
Accounts payable and other liabilities	1,719,156	803,725
Accrued interest payable	1,150,838	744,146
Subordinated debt	7,217,000	7,217,000
	<hr/>	<hr/>
Total liabilities	337,216,857	324,129,501
	<hr/>	<hr/>
Commitments and contingencies	-	-
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	17,386,747	17,354,621
Retained earnings	23,572,690	22,511,880
Treasury stock of 720,895 shares at December 31, 2006 and June 30, 2006 at cost	(12,651,521)	(12,651,521)
Accumulated other comprehensive loss	(289,084)	(690,325)
	<hr/>	<hr/>
Total stockholders' equity	28,048,404	26,554,227
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 365,265,261	\$ 350,683,728

See Notes to Consolidated Financial Statements

-3-

Next Page

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2006 AND 2005 (Unaudited)

	Three months ended		Six months ended	
	December 31,		December 31,	
	2006	2005	2006	2005
INTEREST INCOME:				
Loans receivable	\$ 5,342,768	\$ 4,554,981	\$ 10,554,246	\$ 8,956,675
Investment securities	303,952	248,719	617,635	437,776
Mortgage-backed securities	141,820	145,200	292,042	298,484
Other interest-earning assets	13,678	67,401	24,580	73,364
	<hr/>			
Total interest income	5,802,218	5,016,301	11,488,503	9,766,299
<hr/>				
INTEREST EXPENSE:				
Deposits	2,259,681	1,757,414	4,401,013	3,160,113
Securities sold under agreements to repurchase	123,283	81,092	247,054	145,410
Advances from FHLB of Des Moines	855,501	729,566	1,637,528	1,548,598
Subordinated debt	150,045	121,885	300,264	237,388
	<hr/>			
Total interest expense	3,388,510	2,689,957	6,585,859	5,091,509
<hr/>				
NET INTEREST INCOME	2,413,708	2,326,344	4,902,644	4,674,790
PROVISION FOR LOAN LOSSES	95,000	85,000	220,000	205,000
<hr/>				
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,318,708	2,241,344	4,682,644	4,469,790
<hr/>				
NONINTEREST INCOME:				
Customer service charges	298,602	305,300	614,753	628,295
Loan late charges	31,344	27,210	62,578	56,290
Increase in cash surrender value of bank owned life insurance	65,723	62,081	130,323	124,866
Other	152,802	138,225	317,998	263,386
	<hr/>			
Total noninterest income	548,471	532,816	1,125,652	1,072,837
<hr/>				
NONINTEREST EXPENSE:				
Compensation and benefits	1,002,550	925,372	1,987,830	1,828,940
Occupancy and equipment, net	332,007	347,295	672,982	654,352
Professional fees	44,970	37,881	85,494	97,218
Advertising	64,854	44,745	122,133	84,827
Postage and office supplies	78,556	68,983	147,789	149,748
Amortization of intangible assets	63,814	63,814	127,629	127,629
Other	208,193	233,509	439,989	503,216
	<hr/>			
Total noninterest expense	1,802,823	1,729,054	3,599,793	3,460,976
<hr/>				

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

INCOME BEFORE INCOME TAXES	1,064,356	1,045,106	2,208,503	2,081,651
INCOME TAXES	340,753	366,194	745,153	721,743
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCOME	723,603	678,912	1,463,350	1,359,908
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gains (losses) on AFS securities	125,935	(158,296)	401,241	(258,625)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other comprehensive (loss) income	125,935	(158,296)	401,241	(258,625)
	<hr/>	<hr/>	<hr/>	<hr/>
COMPREHENSIVE INCOME	\$ 849,538	\$ 520,616	\$ 1,864,591	\$ 1,101,283
Basic earnings per common share	\$ 0.32	\$ 0.31	\$ 0.66	\$ 0.61
Diluted earnings per common share	\$ 0.32	\$ 0.30	\$ 0.65	\$ 0.60
Dividends per common share	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
See Notes to Consolidated Financial Statements				

-4-

Next Page

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED DECEMBER 31, 2006 AND 2005 (Unaudited)

	2006	Six Months ended December 31, 2005
Cash Flows From Operating Activities:		
Net income	\$1,463,350	\$1,359,908
Items not requiring (providing) cash:		
Depreciation	332,140	326,339
MRP, ESOP and SOP expense	32,126	33,104
Gain on sale of foreclosed assets	(3,116)	-
Amortization of intangible assets	127,629	148,900
Increase in cash surrender value of bank owned life insurance	(130,323)	(124,866)
Provision for loan losses	220,000	205,000
(Accretion) amortization of premiums and discounts on securities	(3,749)	26,987
Deferred income taxes	(35,000)	69,219
Changes in:		
Accrued interest receivable	(164,496)	(372,502)
Prepaid expenses and other assets	12,649	(463,796)
Accounts payable and other liabilities	915,432	1,587,997
Accrued interest payable	406,692	201,126
Net cash provided by operating activities	3,173,334	2,997,416
Cash flows from investing activities:		
Net increase in loans	(12,698,283)	(8,677,011)
Proceeds from maturities of available for sale securities	3,970,143	3,187,799
Net redemption (purchases) of Federal Home Loan Bank stock	(688,700)	372,800
Purchases of available-for-sale securities	(2,123,500)	(5,477,047)
Purchases of premises and equipment	(134,368)	(1,239,080)
Proceeds from sale of foreclosed assets	18,663	-
Net cash used in investing activities	(11,656,045)	(11,832,539)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits and savings accounts	(6,955,031)	10,398,427
Net increase in certificates of deposits	331,724	18,240,622
Net decrease in securities sold under agreements to repurchase	(1,161,460)	(2,704,646)
Proceeds from Federal Home Loan Bank advances	122,075,000	28,250,000
Repayments of Federal Home Loan Bank advances	(102,525,000)	(37,750,000)
Dividends paid on common stock	(402,540)	(401,907)
Net cash provided by financing activities	11,362,693	16,032,496
Increase in cash and cash equivalents	2,879,982	7,197,373
Cash and cash equivalents at beginning of period	6,366,608	3,886,961
Cash and cash equivalents at end of period	\$9,246,590	\$11,084,334
Supplemental disclosures of Cash flow information: <u>Noncash investing and financing activities</u> : Conversion of loans to foreclosed real estate \$251,949 \$190,679 Conversion of loans to other equipment 18,128 22,376 <u>Cash paid during the period for</u> : Interest (net of interest credited) \$2,666,092 \$2,212,013 Income taxes 732,391 -		

See Notes to Consolidated Financial Statements

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

SOUTHERN MISSOURI BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet of the Company as of June 30, 2006, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three and six month periods ended December 31, 2006, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the Company's June 30, 2006, Form 10-K, which was filed with the SEC and the Company's annual report, which contains the audited consolidated financial statements for the fiscal years ended June 30, 2006 and 2005.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Southern Missouri Bank & Trust Co. (SMBT or Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Securities

Available for sale securities are summarized as follows at estimated fair value:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities:				
U.S. government and Federal agency obligation	\$21,690,407	\$13,073	\$(241,130)	\$21,462,350
Obligations of state and political subdivisions	1,306,560	50,458	(8,243)	1,348,775
FNMA preferred stock	1,000,000	-	-	1,000,000
Other securities	827,501	-	-	827,501
Mortgage-backed securities	12,829,928	16,684	(289,735)	12,556,877
Total investments and mortgage-backed securities	\$37,654,396	\$80,215	\$(539,108)	\$37,195,503

	June 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities:				
U.S. government and Federal agency obligation	\$20,672,506	\$ -	\$(508,951)	\$20,163,555
Obligations of state and political subdivisions	851,758	10,635	(12,371)	850,022
FNMA preferred stock	1,000,000	-	-	1,000,000
Other securities	1,950,000	-	(2,344)	1,947,656
Mortgage-backed securities	15,023,027	1,500	(584,252)	14,440,275
Total investments and mortgage-backed securities	\$39,497,291	\$12,135	\$(1,107,918)	\$38,401,508

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

The following table shows 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 December 31, 2006.

	Less than 12 months		More than 12 months		Totals	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Investment Securities:						
U.S. government and Federal agency obligations	\$3,030,948	\$(7,412)	\$16,424,718	\$(233,718)	\$19,455,666	\$(241,130)
Obligations of state and political subdivisions	-	-	254,602	(8,243)	254,602	(8,243)
Other securities	-	-	-	-	-	-
Mortgage-backed securities	1,013,688	(6,799)	9,585,164	(282,936)	10,598,852	(289,735)
Total investments and mortgage-backed securities	\$4,044,636	\$(14,211)	\$26,264,484	\$(524,897)	\$30,309,120	\$(539,108)

The following table shows 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, 2006.

	Less than 12 months		More than 12 months		Totals	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Investment Securities:						
U.S. government and Federal agency obligations	\$7,776,078	\$(165,814)	\$12,387,478	\$(343,137)	\$20,163,556	\$(508,951)
Obligations of state and political subdivisions	-	-	591,007	(12,371)	591,007	(12,371)
Other securities	497,656	(2,344)	-	-	497,656	(2,344)
Mortgage-backed securities	2,434,689	(39,379)	11,296,394	(544,873)	13,731,083	(584,252)
Total investments and mortgage-backed securities	\$10,708,423	\$(207,537)	\$24,274,879	\$(900,381)	\$34,983,302	\$(1,107,918)

Note 3: Loans

Loans are summarized as follows:

	December 31 2006	June 30 2006
Real Estate Loans:		
Conventional	\$127,551,102	\$127,205,201
Construction	10,716,698	10,868,078
Commercial	66,768,685	65,373,576
Consumer loans	19,450,037	20,105,818
Commercial loans	74,006,540	65,108,884
	298,493,062	288,661,557
Loans in process	(3,229,670)	(5,737,933)
Deferred loan fees, net	71,381	65,511
Allowance for loan losses	(2,189,976)	(2,058,144)
Total loans	\$293,144,797	\$280,930,991

Note 4: Deposits

Deposits are summarized as follows:

	December 31 2006	June 30 2006
Non-interest bearing accounts	\$18,852,567	\$18,710,087
NOW accounts	30,968,220	31,037,038
Money market deposit accounts	6,993,021	8,907,715

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Savings accounts	68,710,997	73,824,996
Certificates	125,920,907	125,589,183
Total deposits	\$251,445,712	\$258,069,019

-7-

Next Page

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Note 5: Earnings Per Share

Basic and diluted earnings per share are based upon the weighted-average shares outstanding. The following table summarizes basic and diluted earnings per common share for the three- and six-month periods ended December 31, 2006 and 2005.

	Three months ended December 31, 2006		Six months ended December 31, 2005	
	2006	2005	2006	2005
Net income	\$723,603	\$678,912	\$1,463,350	\$1,359,908
Average Common shares - outstanding basic	2,228,353	2,223,891	2,228,304	2,223,828
Stock options under treasury stock method	40,832	52,359	40,420	52,586
Average Common share - outstanding diluted	2,269,185	2,276,250	2,268,724	2,276,414
Basic earnings per common share	\$0.32	\$0.31	\$0.66	\$0.61
Diluted earnings per common share	\$0.32	\$0.30	\$0.65	\$0.60

Note 6: Stock Option Plans

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.

Note 7: Employee Stock Ownership Plan

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. The Company's intent is to continue the ESOP for fiscal 2007. The Company has been accruing \$16,000 per month for ESOP expenses this fiscal year and, consistent with last fiscal year, intends to purchase shares for distribution to participants in late fiscal 2007.

Note 8: Corporate Obligated Floating Rate Trust Preferred Securities

Southern Missouri Statutory Trust I issued \$7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") in March, 2004, with a liquidation value of \$1,000 per share. The securities are due in 30 years, redeemable after five years and bear interest at a floating rate based on LIBOR. The securities represent undivided beneficial interests in the trust, which was established by the Company 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 the Company. The Company has used its net proceeds for working capital and investment in its subsidiaries.

Note 9: Authorized Share Repurchase Program

In April 2004, the Board of Directors authorized and announced the open-market stock repurchase of up to 115,000 shares of the Company's outstanding stock. As of December 31, 2006, a total of 88,645 shares have been repurchased. The number of shares, as of December 31, 2006, held as treasury stock was 720,895.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

PART I: Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations SOUTHERN MISSOURI BANCORP, INC.

General

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's deposit accounts are generally insured up to a maximum of \$100,000 (certain 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 currently conducts its business through its home office located in Poplar Bluff and eight full service branch facilities in Poplar Bluff, Van Buren, Dexter, Kennett, Doniphan, Sikeston, and Quilin, Missouri.

The significant accounting policies followed by Southern Missouri Bancorp, Inc. and its wholly-owned subsidiary for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The consolidated balance sheet of the Company as of June 30, 2006, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes. The following discussion reviews the Company's consolidated financial condition at December 31, 2006, and the results of operations for the three- and six-month periods ended December 31, 2006 and 2005, respectively.

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 may 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 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 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.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

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

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2006 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Company's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" beginning on page 11 in the Company's 2006 Annual Report.

Executive Summary

Our results of operations depend primarily on our net interest margin, which is directly impacted by the interest rate environment. The net interest margin is the difference between the average yield earned on average interest-earning assets, primarily mortgage loans, commercial loans and the investment portfolio, and the average rate paid on average interest-bearing liabilities, primarily certificates of deposit, savings, interest-bearing demand accounts and borrowed funds. Net interest margin is directly impacted by the spread between long-term interest rates and short-term interest rates, as our interest-earning assets, particularly those with initial terms to maturity or repricing greater than one year, generally price off longer term rates while our interest-bearing liabilities generally price off shorter term interest rates.

Our net interest income is also impacted by the shape of the market yield curve. A steep yield curve - in which the difference in interest rates between short term and long term periods is relatively large - could be beneficial to our net interest income, as the interest rate spread between our interest-earning assets and interest-bearing liabilities would be larger. Conversely, a flat or flattening yield curve, in which the difference in rates between short term and long term periods is relatively small or shrinking, or an inverted yield curve, in which short term rates exceed long term rates, could have an adverse impact on our net interest income, as our interest rate spread could decrease.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, government policies and actions of regulatory authorities.

During the first six months of fiscal 2007, we grew our balance sheet by \$14.6 million, which was consistent with the growth initiatives we have employed during recent periods. This additional growth reflected a \$12.2 million increase in total net loans, a \$6.6 million decrease in deposits, and a \$19.6 million increase in borrowed funds. The growth in loans was primarily due to commercial loan originations and advances on available lines of credit. At the present time, management expects that loan growth for the current fiscal year will be near the high end of the range of loan growth experienced over the last five years. The increase in borrowed funds was in the form of both short-term borrowings and long-term callable advances from the Federal Home Loan Bank of Des Moines (FHLB).

Our net income for the second quarter of 2007 increased 6.6% to \$724,000, as compared to \$679,000 earned during the same period of the prior year. The increase in net income was primarily due to a 3.8% increase in net interest income and a 6.9% decrease in income tax provisions, partially offset by a 4.3% increase in non-interest expense. Diluted earnings per share for the second quarter of fiscal 2007 were \$0.32, as compared to \$0.30 for the second quarter of fiscal 2006. For the first six months of fiscal 2007, net income increased 7.6% to \$1.46 million, as compared to \$1.36 million earned during the same period of the prior year. The increase in net income was primarily due to a 4.9% increase in net interest income, partially offset by a 4.0% increase in non-interest expense. Diluted earnings per share for the first six months of fiscal 2007 were \$0.65, as compared to \$0.60 for the same period of the prior year. For the three- and six month periods ended December 31, 2006, both interest income and interest expense increased, the result of increases in the average amounts of interest-earning assets and liabilities outstanding, and increases in yields earned and paid on those assets and liabilities.

-10-

Next Page

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Short-term market interest rates were relatively steady during the first six months of fiscal 2007, following increases during the previous two fiscal years. The Federal Open Market Committee of the Federal Reserve Bank increased the overnight lending rate 25 basis points at each of the regularly scheduled meetings from June 2004 to June 2006, and held the rate steady following each of its four meetings since, at the current rate of 5.25%. Intermediate- and long-term market interest rates have decreased from 40 to 50 basis points during the first six months of fiscal 2007. The result was a continued inversion of the yield curve during the first six months of fiscal 2007. In this rate environment, our net interest margin was relatively steady, while our interest rate spread decreased seven basis points when comparing the first six months of fiscal 2007 with the corresponding period in 2006, as our interest income, in general, is reflective of long-term rates, while our interest expense, in general, is reflective of short-term rates. The \$228,000 increase in net interest income for the first six months of fiscal 2007, when compared to the corresponding period in 2006, reflected growth of 5.1% in our average interest-earning assets, compared to the prior period, and was offset by our seven basis point decline in interest rate spread, from 2.66% in the prior period, to 2.59% in the current period.

The Company's net income is also affected by the level of non-interest income and operating expenses. Non-interest income consists primarily of service charges, ATM and loan fees, and other general operating income. Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, postage, insurance, advertising, professional fees, office expenses, and other general operating expenses. In the three- and six-month periods ended December 31, 2006, compared to the same periods of the prior year, non-interest income increased 2.9% and 4.9%, respectively, primarily due to increased collections of loan fees, income from ATM and debit card transactions, and other miscellaneous fee income. In the three- and six-month periods ended December 31, 2006, compared to the same periods of the prior year, non-interest expense increased 4.3% and 4.0%, respectively, primarily in the categories of compensation and benefits and advertising, which is partially related to the Company's opening of a new banking facility in January 2006. Absent the non-interest expenses attributed to that location, non-interest expense would have declined compared to the same period of the prior year.

Management plans to continue to grow our assets through the origination and occasional purchase of loans and investment securities. The primary funding for our asset growth is expected to come from retail deposits, short- and long-term FHLB borrowings, and brokered certificates of deposit. We intend to grow deposits by offering desirable deposit products for our existing customers and by attracting new depository relationships. We will continue to explore branch expansion opportunities in market areas that we believe present attractive opportunities for our strategic business model.

Comparison of Financial Condition at December 31, 2006, and June 30, 2006

The Company's total assets increased by \$14.6 million, or 4.2%, to \$365.3 million at December 31, 2006, as compared to \$350.7 million at June 30, 2006. Loans, net of the allowance for loan losses, increased \$12.2 million, or 4.3%, to \$293.1 million, as compared to \$280.9 million at June 30, 2006. The Company continues to focus on the origination of commercial and commercial real estate loans, resulting in growth of \$1.4 million and \$8.9 million, respectively, in these balances. Cash balances increased \$2.9 million, or 45.2%, to \$9.2 million, as compared to \$6.4 million at June 30, 2006, the result largely of a temporary increase in the amount of cash items in the process of collection.

Asset growth during the first six months of fiscal 2007 has been funded primarily with long- and short-term FHLB borrowings. The Company used \$10.0 million in new long-term, callable FHLB advances and \$14.6 million in new short-term FHLB borrowings to replace \$5.0 million in term FHLB advances that were called or matured during the first six months of the fiscal year; to replace net maturities of \$8.5 million in brokered deposits; and to provide \$11.1 million in funding for loan growth. Outstanding FHLB advances totaled \$65.6 million at December 31, 2006, up \$19.6 million, or 42.5%, compared to \$46.0 million at June 30, 2006. The Company had no short-term advances outstanding at June 30, 2006; at December 31, 2006, short-term advances totaled \$14.6 million. At December 31, 2005, outstanding term FHLB advances totaled \$52.0 million. Brokered deposits totaled \$5.0 million at December 31, 2006, compared to \$13.6 million at June 30, 2006, and \$10.7 million at December 31, 2005. The Company has shifted funding sources due to better pricing available over the last six months in FHLB advances. Retail (non-brokered) deposits totaled \$246.4 million at December 31, 2006, up \$1.9 million as compared to \$244.5 million at June 30, 2006. At December 31, 2005, retail deposits totaled \$242.6 million. The fiscal year 2007 increase in retail deposits was primarily due to an \$8.9 million increase in retail CDs, offset by a \$4.6 million decrease in money market passbook deposits, and a \$1.9 million decrease in other money market deposit accounts. The shift to CDs is attributed to current customer preferences for earnings over liquidity. Securities sold under agreements to repurchase decreased \$1.2 million, to \$10.1 million at December 31, 2006, compared to \$11.3 million at June 30, 2006. The decrease was attributed primarily to normal balance fluctuations with customers holding the agreements.

Total stockholders' equity increased \$1.4 million, or 5.6%, to \$28.0 million at December 30, 2006, as compared to \$26.6 million at June 30, 2006. The increase was primarily due to retention of net income and an increase in the market value of the available-for-sale investment portfolio, partially offset by cash dividends paid.

Average Balance Sheet for the Three And Six Month Periods Ended December 31, 2006 and 2005

The tables on the following pages present certain information regarding Southern Missouri Bancorp, Inc.'s financial condition and net interest income for the three- and six-month periods ending December 31, 2006 and 2005. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Yields on tax-exempt obligations were not computed on a tax equivalent basis.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

	Three months ended December 31, 2006			Three months ended December 31, 2005		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	\$205,827,925	\$3,575,735	6.95	\$190,955,102	\$3,146,622	6.59
Other loans (1)	87,000,795	1,767,033	8.12	84,647,472	1,408,359	6.66
Total net loans	292,828,720	5,342,768	7.30	275,602,574	4,554,981	6.61
Mortgage-backed securities	12,933,578	141,820	4.39	15,574,390	145,200	3.73
Investment securities (2)	28,527,927	308,464	4.33	30,627,332	289,716	3.78
Other interest earning assets	3,595,502	9,166	1.02	3,026,034	26,404	3.49
Total interest earning assets (1)	337,885,727	5,802,218	6.87	324,830,330	5,016,301	6.18
Other noninterest earning assets (3)	22,102,058	-		21,096,268	-	
Total assets	\$359,987,785	\$5,802,218		\$345,926,598	\$5,016,301	
Interest bearing liabilities:						
Savings accounts	\$69,325,040	\$648,563	3.74	\$66,733,140	\$554,980	3.33
NOW accounts	29,966,964	94,418	1.26	28,663,430	86,837	1.21
Money market accounts	7,179,340	35,534	1.98	12,081,693	55,087	1.82
Certificates of deposit	125,086,392	1,481,166	4.74	121,546,574	1,060,510	3.49
Total interest bearing deposits	231,557,736	2,259,681	3.90	229,024,837	1,757,414	3.07
Borrowings:						
Securities sold under agreements to repurchase	10,016,108	123,283	4.92	8,903,243	81,092	3.64
FHLB advances	63,375,272	855,501	5.40	54,139,785	729,566	5.39
Subordinated debt	7,217,000	150,045	8.32	7,217,000	121,885	6.76
Total interest bearing liabilities	312,166,116	3,388,510	4.34	299,284,865	2,689,957	3.60
Noninterest bearing demand deposits	17,893,678	-		18,077,686	-	
Other noninterest bearing liabilities	2,228,475	-		3,031,294	-	
Total liabilities	332,288,269	3,388,510		320,393,845	2,689,957	
Stockholders' equity	27,699,516	-		25,532,753	-	
Total liabilities and stockholders' equity	\$359,987,785	\$3,388,510		\$345,926,598	\$2,689,957	
Net interest income		2,413,708			2,326,344	
Interest rate spread (4)			2.53			2.58
Net interest margin (5)			2.86			2.86
Ratio of average interest-earning assets to average interest-bearing liabilities	108.24%			108.54%		

- (1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.
- (2) Includes FHLB stock and related cash dividends.
- (3) Includes average balances for fixed assets and BOLI of \$8.7 million and \$6.8 million, respectively, for the three-month period ending December 31, 2006, as compared to \$7.9 million and \$6.6 million for the same period of the prior year.
- (4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents net interest income divided by average interest-earning assets.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

	Six months ended December 31, 2006			Six months ended December 31, 2005		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	\$203,759,977	\$7,042,182	6.91	\$190,994,338	\$6,167,510	6.46
Other loans (1)	86,652,892	3,512,064	8.11	83,274,758	2,789,165	6.70
Total net loans	290,412,869	10,554,246	7.27	274,269,096	8,956,675	6.53
Mortgage-backed securities	13,754,502	292,042	4.25	16,215,711	298,484	3.68
Investment securities (2)	28,257,232	626,664	4.43	25,955,359	480,952	3.71
Other interest earning assets	3,387,753	15,551	0.92	3,157,519	30,188	1.91
Total interest earning assets (1)	335,812,356	11,488,503	6.84	319,597,685	9,766,299	6.11
Other noninterest earning assets (3)	21,652,436	-		21,238,036	-	
Total assets	\$357,464,792	\$11,488,503		\$340,835,721	\$9,766,299	
Interest bearing liabilities:						
Savings accounts	\$70,797,750	\$1,331,016	3.75	\$65,006,870	\$961,061	2.96
NOW accounts	29,493,233	188,871	1.28	28,405,750	172,573	1.22
Money market accounts	7,712,521	76,890	1.99	12,695,123	110,229	1.74
Certificates of deposit	124,161,711	2,804,236	4.52	113,817,160	1,916,250	3.37
Total interest bearing deposits	232,165,215	4,401,013	3.79	219,924,903	3,160,113	2.87
Borrowings:						
Securities sold under agreements to repurchase	10,208,429	247,054	4.84	8,993,321	145,410	3.45
FHLB advances	60,297,419	1,637,528	5.43	59,248,697	1,548,598	5.23
Subordinated debt	7,217,000	300,264	8.32	7,217,000	237,388	6.58
Total interest bearing liabilities	309,888,063	6,585,859	4.25	295,383,921	5,091,509	3.45
Noninterest bearing demand deposits	18,223,453	-		17,239,463	-	
Other noninterest bearing liabilities	1,810,100	-		2,846,838	-	
Total liabilities	329,921,616	6,585,859		315,470,222	5,091,509	
Stockholders' equity	27,343,176	-		25,365,499	-	
Total liabilities and stockholders' equity	\$357,264,792	\$6,585,859		\$340,835,721	\$5,091,509	
Net interest income		4,902,644			4,674,790	
Interest rate spread (4)			2.59			2.66
Net interest margin (5)			2.92			2.93
Ratio of average interest-earning assets to average interest-bearing liabilities	108.30%			108.20%		

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

(2) Includes FHLB stock and related cash dividends.

(3) Includes average balances for fixed assets and BOLI of \$8.8 million and \$6.8 million for the six-month period ending December 31, 2006, as compared to \$7.9 million and \$6.5 million for the same period of the prior year.

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

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

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Results of Operations - Comparison of the three- and six-month periods ended December 31, 2006 and 2005

General. Net income for the three- and six-month periods ended December 31, 2006, was \$724,000 and \$1.46 million, respectively, an increase of \$45,000, or 6.6%, and \$103,000, or 7.6%, as compared to net income of \$679,000 and \$1.36 million, respectively, earned during the same periods of the prior year. Basic and diluted earnings per share were \$0.32 for the second quarter of fiscal 2007, compared to basic and diluted earnings per share of \$0.31 and \$0.30, respectively, for the same period of the prior year. For the first six months of fiscal 2007, basic and diluted earnings per share were \$0.66 and \$0.65, respectively, compared to basic and diluted earnings per share of \$0.61 and \$0.60, respectively, for the same period of the prior year. Our annualized return on average assets for the three- and six-month periods ended December 31, 2006, was .80% and .82%, respectively, compared to .78% and .80%, respectively, for the same periods of the prior year. Our return on average stockholders' equity for the three- and six-month periods ended December 31, 2006, was 10.45% and 10.70%, respectively, compared to 10.54% and 10.67%, respectively, for the same periods of the prior year.

Net Interest Income. Net interest income for the three- and six-month periods ended December 31, 2006 increased \$87,000, or 3.8%, and \$228,000, or 4.9%, respectively, as compared to the same periods of the prior year. These increases primarily reflected our growth initiatives that resulted in increases in the average balances of both interest-earning assets and interest-bearing liabilities for both the three- and six-month periods, and was partially offset by a decrease in our net interest rate spread for both the three- and six-month periods. Our net interest rate spread for the three- and six-month periods ended December 31, 2006, was 2.53% and 2.59%, respectively, both compressed when compared to net interest rate spreads of 2.58% and 2.66%, respectively, earned for the same periods of the prior year. For the three- and six-month periods ending December 31, 2006, our net interest margin, determined by dividing annualized net interest income by total average interest-earning assets, was 2.86%, and 2.92%, respectively, relatively stable when compared to net interest margin of 2.86% and 2.93%, respectively, earned during the same periods of the prior year. The decrease in net interest rate spread for the three- and six-month periods ended December 31, 2006, resulted from respective 74 and 80 basis point increases in the weighted-average cost of funds, partially offset by respective 69 and 73 basis point increases in the weighted-average yield on interest-earning assets. Net interest rate spread compression during the last twelve months was attributed to repricing of liabilities at relatively higher short-term rates, while assets repriced at a slower pace and based on relatively lower longer-term interest rates. While spread compression is currently pronounced due to loan demand that has exceeded deposit growth, which required the Company to obtain higher-cost funding, the Company's focus during the last several fiscal years on origination of commercial and commercial real estate loans (which generally carry a higher yield and have more favorable repricing characteristics, compared to our 1-4 family residential loan portfolio) likely reduced overall spread compression.

Interest Income. Total interest income for the three- and six-month periods ended December 31, 2006, increased \$786,000, or 15.7%, and \$1.7 million, or 17.6%, respectively, compared to the same periods of the prior year, due to growth of \$13.1 million and \$16.2 million, respectively, in the average balance of interest-earning assets, and increases of 69 and 73 basis points, respectively, in the yield earned on those assets. For the three- and six-month periods ended December 31, 2006, the average interest rate on interest-earning assets was 6.87% and 6.84%, respectively, as compared to average interest rates of 6.18% and 6.11%, respectively, for the same periods of the prior year.

Interest Expense. Total interest expense for the three- and six-month periods ended December 31, 2006, increased \$699,000, or 26.0%, and \$1.5 million, or 29.3%, respectively, compared to the same periods of the prior year, due to growth of \$12.9 million and \$14.5 million, respectively, in the average balance of interest-bearing liabilities, and increases of 74 and 80 basis points, respectively, in the weighted-average cost of funds. For the three- and six-month periods ended December 31, 2006, the average interest rate on interest-bearing liabilities was 4.34% and 4.25%, respectively, as compared to average interest rates of 3.60% and 3.45%, respectively, for the same periods of the prior year.

Provision for Loan Losses. The provision for loan losses for the three- and six-month periods ended December 31, 2006, was \$95,000 and \$220,000, respectively, as compared to \$85,000 and \$205,000, respectively, for the same periods of the prior year. The Company's recent growth in its commercial and commercial real estate loan balances has required increased provisions for loan losses, as those loan types generally carry additional risk. Although we believe that we have established and maintained the allowance for loan losses at adequate levels, additions will be necessary as the loan portfolio grows, as economic conditions change, and as other conditions differ from the current operating environment. Even though we use the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. (See "Critical Accounting Policies", "Allowance for Loan Loss Activity" and "Nonperforming Assets").

Non-interest Income. Non-interest income for the three- and six-month periods ended December 31, 2006, increased \$16,000, or 2.9%, and \$53,000, or 4.9%, as compared to the same periods of the prior year. The increases were primarily due to increased collections of loan fees, income from ATM and debit card transactions, and other miscellaneous fee income.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

Non-interest Expense. Non-interest expense for the three- and six-month periods ended December 31, 2006, increased \$74,000, or 4.3%, and \$139,000, or 4.0%, respectively, as compared to the same periods of the prior year. The increases were primarily due to increased salaries and benefits and advertising expenses. The Company opened a new banking facility in January 2006. For the three- and six-month period ended December 31, 2006, non-interest expense attributable to that location totaled \$112,000 and \$221,000, respectively, compared to non-interest expense attributable to that location totaling \$7,000 for each of the same periods of the prior year. Absent the increase in those costs, non-interest expenses for the three- and six-month periods would have decreased 1.8% and 2.2%, respectively, as compared to the same periods of the prior year. As the Company continues to grow its balance sheet, the amount of non-interest expense is expected to increase due to compensation, expenses related to expansion, and inflation. Our efficiency ratio, determined by dividing total non-interest expense by the sum of net interest income and non-interest income, was 60.9% and 59.7%, respectively, for the three- and six-month periods ended December 31, 2006, as compared to 60.5% and 60.2%, respectively, for the same periods of the prior year.

Income Taxes. Provisions for income taxes for the three-month period ended December 31, 2006, decreased \$25,000, or 6.9%, to \$341,000, as compared to \$366,000 for the same period of the prior year. For the six-month period ended December 31, 2006, provisions for income taxes increased \$23,000, or 3.2%, to \$745,000, as compared to \$722,000 for the same period of the prior year. Our effective tax rate for the three- and six-month periods ended December 31, 2006, was 32.0% and 33.7%, respectively, as compared to 35.0% and 34.7%, respectively, for the same periods of the prior year. The decrease in the effective tax rate for the three-month period was primarily due to revisions to the tax accrual estimate. The decrease in the effective tax rate for the six-month period was primarily due to an increase in the amount of tax-exempt income.

Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management's analysis of the loan portfolio, the amount of non-performing and classified assets, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the six months ended December 31, 2006 and 2005:

	2006	2005
Balance, beginning of period	\$2,058,144	\$2,016,514
Loans charged off:		
Residential real estate	(80,675)	(46,670)
Commercial business	-	(74,692)
Consumer	(39,743)	(87,540)
Gross charged off loans	(120,418)	(208,902)
Recoveries of loans previously charged off:		
Residential real estate	3,604	81
Commercial business	21,001	-
Consumer	7,645	24,064
Gross recoveries of charged off loans	32,250	24,145
Net charge offs	(88,168)	(184,757)
Provision charged to expense	220,000	205,000
Balance, end of period	\$2,189,976	\$2,036,757
Ratio of net charge offs during the period to average loans outstanding during the period	0.03%	0.07%

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased \$132,000 to \$2.2 million at December 31, 2006, from \$2.1 million at June 30, 2006. At December 31, 2006, the Bank had \$823,000, or .23% of total assets, adversely classified (substandard, doubtful, or loss) as compared to adversely classified assets of \$889,000, or .26% of assets, at December 31, 2005. At December 31, 2006, the Company had classified assets as substandard and doubtful in the amount of \$819,000 and \$4,000, respectively.

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-Q

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio and potential changes in market conditions, our level of nonperforming assets and resulting charge offs may fluctuate. Higher levels of net charge offs requiring additional provisions for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Nonperforming Assets

The ratio of nonperforming assets to total assets and non-performing loans to net loans receivable is another measure of asset quality. Nonperforming assets of the Company include nonaccruing loans, accruing loans delinquent/past maturity 90 days or more, and assets which have been acquired as a result of for