



# Expanding

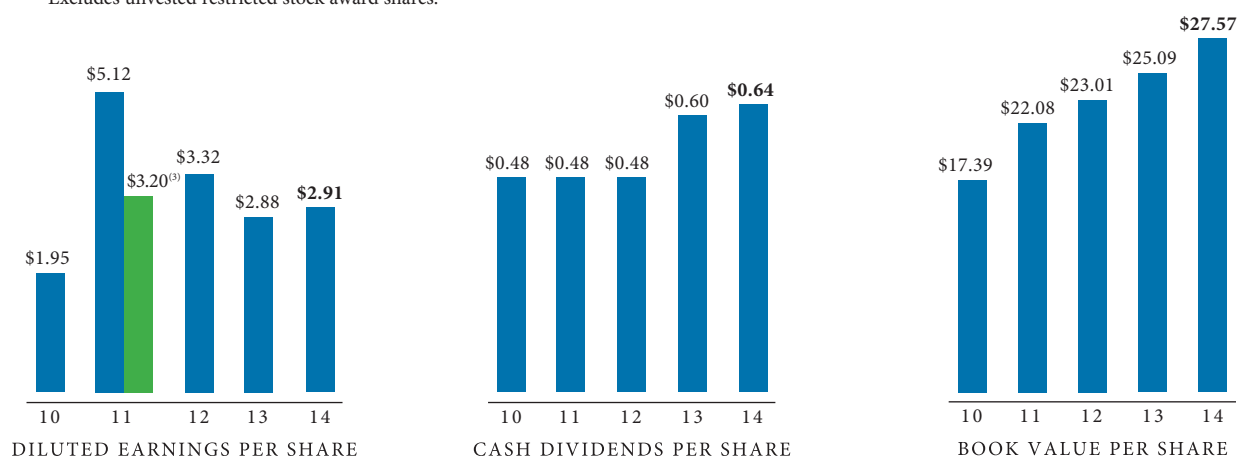
Southern Missouri Bancorp, Inc. | 2014 Annual Report

> FINANCIAL SUMMARY <

	2014	2013	CHANGE(%)
<b>EARNINGS</b> (dollars in thousands)			
Net interest income	\$ 32,986	\$ 28,790	14.6%
Provision for loan losses	1,646	1,716	-4.1
Noninterest income	6,132	4,468	37.2
Noninterest expense	23,646	17,521	35.0
Income taxes	3,745	3,954	-5.3
Net income	10,081	10,067	0.1
Effective dividend on preferred shares	200	345	-42.0
Net income available to common stockholders	9,881	9,722	1.6
<b>PER COMMON SHARE</b>			
Net income:			
Basic	\$ 2.99	\$ 2.95	1.4
Diluted	2.91	2.88	1.0
Tangible book value	26.38	24.77	6.5
Closing market price	35.69	25.67	39.0
Cash dividends declared	.64	.60	6.7
<b>AT YEAR-END</b> (dollars in thousands)			
Total assets	\$ 1,021,422	\$ 796,391	28.3
Loans, net of allowance	801,056	647,166	23.8
Reserves as a percent of nonperforming loans	663 %	584 %	
Deposits	\$ 785,801	\$ 632,379	24.3
Stockholders' equity	111,111	101,829	9.1
<b>FINANCIAL RATIOS</b>			
Return on average common stockholders' equity	11.55 %	12.34 %	
Return on average assets	1.09	1.32	
Net interest margin	3.81	4.02	
Efficiency ratio	60.63	52.68	
Allowance for loan losses to loans	1.14	1.28	
Equity to average assets at year-end	12.03	13.32	
<b>OTHER DATA</b> <sup>(1)</sup>			
Common shares outstanding	3,340,440	3,294,040	
Common shares outstanding for book value calculation <sup>(2)</sup>	3,304,440	3,262,040	
Average common and dilutive shares outstanding	3,399,079	3,375,553	
Common stockholders of record	261	249	
Full-time equivalent employees	227	173	
Assets per employee (in thousands)	\$ 4,500	\$ 4,603	
Banking offices	25	18	

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

<sup>(2)</sup> Excludes unvested restricted stock award shares.



<sup>(3)</sup> Diluted Earnings Per Share for fiscal 2011, excluding impact of bargain purchase gain on Fiscal 2011 Acquisition, net of related tax and transaction expenses. (See "Non-GAAP Financial Information" included in Item 7 of the Company's Annual Report on Form 10-K.)



## Dear Shareholder,

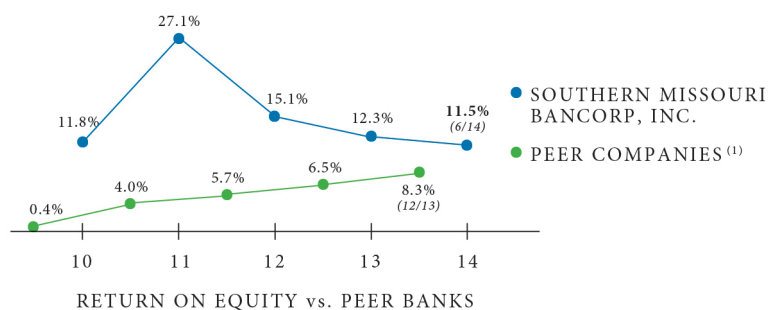
*In fiscal 2014, Southern Missouri Bancorp grew assets by 28.3% as a result of both organic growth and acquisitions, expanded its footprint by seven facilities, signed a definitive merger agreement that will significantly improve the Company's opportunity for future growth in southwest Missouri, and maintained solid core profitability and sound asset quality.*

For fiscal 2014, net income available to common shareholders was \$9.9 million, an increase of 1.6% from the \$9.7 million earned in fiscal 2013. Included in this year's results were (pre-tax) expenses totaling \$1.1 million related to the completed acquisitions of Citizens State Bank and the Bank of Thayer, and \$150,000 related to the acquisition of Peoples Bank of the Ozarks, which occurred after the fiscal year end.

The Company generated a return on common equity of 11.5%, and a return on average assets of 1.09% for fiscal 2014, as compared to 12.3% and 1.32%, respectively, in fiscal 2013. A continued reduction in accretion of fair value discount on loans resulting from the fiscal 2011 acquisition of the former First Southern Bank, Batesville, Arkansas, negatively impacted the comparison, but this effect should be negligible going forward. In fiscal 2014, we estimate that this non-core item improved results by \$395,000, after tax, compared to \$873,000 in fiscal 2013.

### Return on common equity compares well to peer banks

The Company's returns have trended down since fiscal 2011, as the purchase accounting benefits of that year's acquisition dissipate. Additional expenses related to acquisitions lowered this year's returns.

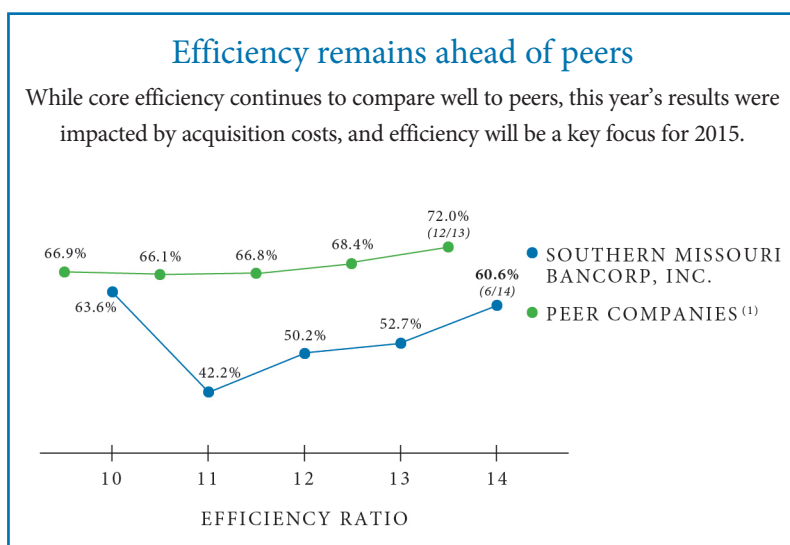


Our net interest income improved 14.6%, as a result of an increase of 21.0% in the average balance of interest-earning assets. Our net interest margin decreased, from 4.02% in fiscal 2013, to 3.81% in fiscal 2014, attributable somewhat to the reduced fair value discount accretion noted above, but also due to the continued low rate environment, and the larger percentage of our balance sheet held in investment securities, as compared to the prior year. Average loan balances did improve 19.0%, but did not quite keep pace with total interest-earning asset growth of 21.0%, as the acquisitions discussed above provided a significant boost to the size of the investment securities portfolio. Some of the acquired securities balances were liquidated, with proceeds used to reduce borrowings.

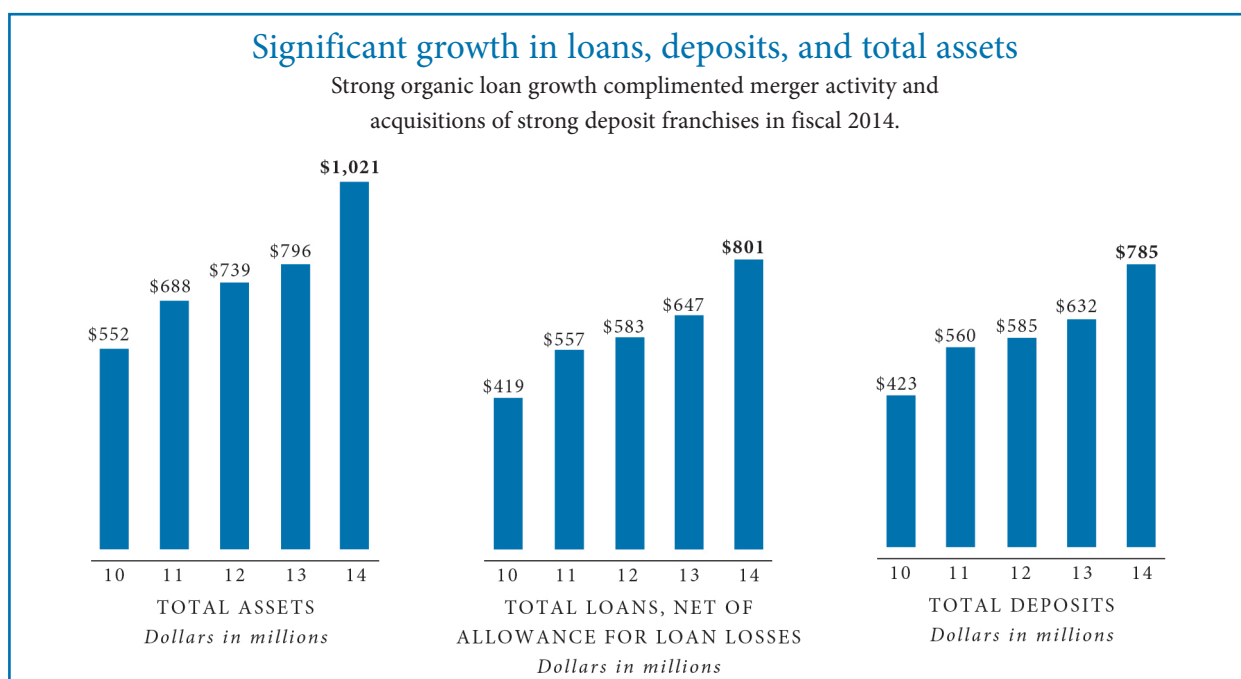
<sup>(1)</sup> Peer data is based on the median year-end figures (December) from SNL DataSource's Index of publicly traded commercial banks and thrifts with assets of \$500 million to \$2 billion, headquartered in Missouri, Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee. SMBC data is as of fiscal year-end (June).

Noninterest income improved 37.2% in fiscal 2014, as a full year's benefit was realized from an overdraft privilege program revamped during fiscal 2013. Bank card interchange revenue continued to improve on higher transaction volume, gains on secondary market loan sales increased, loan origination fees improved, and gains on sales of available-for-sale securities were realized. Some of this noninterest income improvement was attributable to the operations of the acquired entities.

Noninterest expense increased 35.0% for fiscal 2014. Increases in compensation, legal and professional fees, occupancy, data processing, bank card network fees, and intangible amortization accounted for most of the increase. Data processing charges, legal and professional fees, and compensation included a total of \$1.2 million attributable to the acquisitions. A charge of \$376,000 was incurred for the early termination of the Company's debit card processing contract, with the new contract expected to provide better financial and customer service results in the coming year.

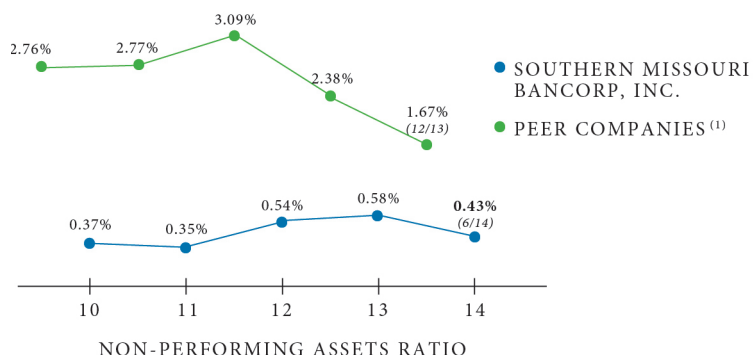


Loan growth of \$153.9 million, or 23.8%, resulted primarily from organic production, and also benefited from the Citizens State Bank and Bank of Thayer acquisitions (\$51.4 million). Growth consisted primarily of increases in our residential real estate (both single- and multi-family) and commercial real estate loans. Deposit growth of \$153.4 million, or 24.3%, resulted primarily from the two acquisitions closed during the fiscal year (\$132.4 million), and was concentrated in interest-bearing and noninterest-bearing transaction accounts, and certificates of deposit.



### Problem asset levels decrease

Problem assets remained relatively stable while the Company acquired two relatively small portfolios, and the Company's asset quality continues to compare favorably versus peers.



Nonperforming assets decreased to \$4.4 million, or 0.43% of total assets, at June 30, 2014, as compared to \$4.6 million, or 0.58% of assets, at June 30, 2013. Asset quality continued to compare very favorably to peers. At June 30, 2014, non-performing loans were 0.17% of gross loans, as compared to 0.22% of gross loans at June 30, 2013. Net charge-offs were 0.10% of average loans outstanding for fiscal 2014, as compared to 0.13% for fiscal 2013.

Book value per common share increased to \$27.57 at June 30, 2014,

up 9.9% over the prior fiscal year end. Tangible book value per share, a non-GAAP measure, improved to \$26.38 at June 30, 2014, up 6.5%, as we experienced some dilution resulting from the acquisitions. Our closing stock price for the fiscal year was \$35.69, up 39.0%, as compared to the previous year end. Over that same one-year period, the SNL U.S. Bank Index increased 16.9%. In the three years ended June 30, 2014, our stock price has increased 71.8%, as compared to a 51.9% price increase in the SNL U.S. Bank Index. Including dividends, SMBC has returned 83.4% over that three-year period, while the SNL U.S. Bank Index has returned 60.8%.

Our dividends paid during fiscal 2014 represented a 1.8% return on our closing stock price on the final day of the fiscal year, and a 2.0% return on our average closing stock price for fiscal 2014. In July 2014, the board was pleased to increase our dividend by 6.3%, to \$0.17 per quarter, effective with the August 2014 payment.

Tangible common equity as a percentage of tangible assets stood at 8.6% at the end of fiscal 2014, as compared to 10.2% at the end of fiscal 2013, still providing capacity to fund the Peoples Bank acquisition, which closed August 5, 2014, with shareholders being paid a mix of cash and stock.



*Our goals for 2015 include:*

**Successful integration and improved operations for our recently-completed acquisitions.**

The Company closed the Bank of Thayer acquisition in October, 2013; the Citizens State Bank acquisition in February, 2014; and the Peoples Bank of the Ozarks acquisition in August, 2014. The earlier two acquisitions underwent systems conversions shortly after acquisition. For Peoples Bank, the Company plans a December 2014 bank merger and systems conversion. With almost \$270 million in assets, ten facilities, and entry as a substantial presence in a market that will be important for our Company's future growth, we are taking a deliberate, methodical approach to integration of the Peoples Bank franchise.

**Improved efficiency and profitability.** As we have ramped up operations over the last year to add seven facilities and added ten more under the Peoples Bank charter since the end of the fiscal year, we've made investments in personnel, facilities, and technology necessary to operate our growing Company. As we reach the planned December merger of the Peoples operation into Southern Bank, we will work to improve efficiency.

**Continued focus on generating core deposit and loan growth.** As noted above, organic loan growth was robust in fiscal 2014. We don't expect to repeat that performance in most years, but we do expect that our lenders will continue to perform well by providing our customers with service that is timely, consistent, and convenient. Meanwhile, the dollar amount of organic deposit growth this year was relatively low. In fact, as we measure our core deposits, we were pleased with non-maturity deposit growth, which reached the high single digits in percentage terms. With CDs, we were less willing to compete on price. As the rate environment appears set to change over the next several years, we expect deposit growth to be more challenging, and we'll meet that challenge with innovative service in our branches, online, and via mobile applications.

Ultimately, our focus remains, as always, on shareholder value. We are very pleased with our results over the last several years, and we know that our standing today is the product of an emphasis, over time, on the two key metrics that matter the most to you: long-term improvement in core earnings per share and tangible book value.

I remain very pleased to have the opportunity to lead a fine team of bankers here at Southern Missouri Bancorp, and that team's efforts have been the key to producing these positive results. It is their dedication to serving the customer base trusting us to meet their needs that allows us to be successful.

I appreciate your continued investment in our Company, I look forward to another year of progress, and I hope to see you at our upcoming annual meeting.



GREG STEFFENS  
PRESIDENT and CHIEF EXECUTIVE OFFICER  
SOUTHERN MISSOURI BANCORP, INC.

> DIRECTORS <

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

**L. Douglas Bagby**  
Vice-Chairman of the Board;  
Retired City Manager, City of Poplar Bluff

**Ronnie D. Black**  
Retired 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

**Dennis C. Robison**  
President, Robison Farms, Inc.

**David J. Tooley**  
Retired President and CEO,  
Metropolitan National Bank

**Todd E. Hensley**  
Investor/Former Chairman,  
Peoples Bank of the Ozarks

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

> EXECUTIVE OFFICERS <

**Greg A. Steffens**  
President and Chief Executive Officer

**Kimberly A. Capps**  
Executive Vice President and  
Chief Operations Officer

**William D. Hribovsek**  
Executive Vice President and  
Chief Lending Officer

**Matthew T. Funke**  
Executive Vice President and  
Chief Financial Officer

**Lora L. Daves**  
Executive Vice President and  
Chief Credit Officer



PLEASE JOIN US

at our 2014 Annual Meeting, where shareholders will hear  
management review this year's performance in detail.

ANNUAL MEETING

MONDAY, OCTOBER 27, 2014 AT 9:00 AM  
CHAMBER OF COMMERCE BUILDING  
1111 WEST PINE, POPLAR BLUFF, MISSOURI

SOUTHERN MISSOURI BANCORP, INC.

continues to actively pursue  
opportunities to grow profitably,  
serve our communities,  
and deliver shareholder value.



**Southern Missouri Bancorp, Inc.**  
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