Southern Missouri BANCORP

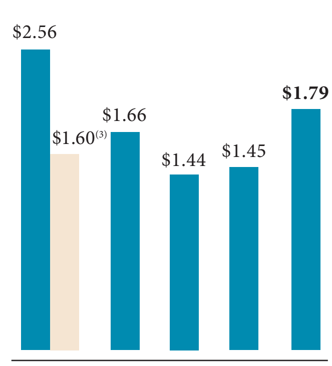
Southern Missouri Bancorp, Inc. | 2015 Annual Report

> FINANCIAL SUMMARY <

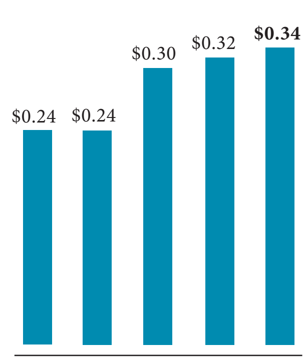
	2015	2014	CHANGE(%)
EARNINGS *(dollars in thousands)*			
Net interest income	$ 46,535	$ 32,986	41.1%
Provision for loan losses	3,185	1,646	93.5
Noninterest income	8,659	6,132	41.2
Noninterest expense	32,285	23,646	36.5
Income taxes	6,056	3,745	61.7
Net income	13,668	10,081	35.6
Effective dividend on preferred shares	200	200	0.0
Net income available to common stockholders	13,468	9,881	36.3
PER COMMON SHARE			
Net income:			
Basic	$ 1.84	$ 1.49	23.5
Diluted	1.79	1.45	23.4
Tangible book value	14.11	13.19	7.0
Closing market price	18.85	17.85	5.6
Cash dividends declared	.34	.32	6.3
AT YEAR-END *(dollars in thousands)*			
Total assets	$ 1,300,064	$ 1,021,422	27.3
Loans, net of allowance	1,053,146	801,056	31.5
Reserves as a percent of nonperforming loans	323%	663%	
Deposits	$ 1,055,242	$ 785,801	34.3
Stockholders' equity	132,643	111,111	19.4
FINANCIAL RATIOS			
Return on average common stockholders' equity	12.48%	11.55%	
Return on average assets	1.07	1.09	
Net interest margin	3.92	3.81	
Efficiency ratio	58.50	60.63	
Allowance for loan losses to loans	1.15	1.14	
Equity to average assets at year-end	10.41	12.03	
OTHER DATA[1]			
Common shares outstanding	7,419,666	6,680,880	
Common shares outstanding for book value calculation [2]	7,364,066	6,608,880	
Average common and dilutive shares outstanding	7,504,642	6,798,158	
Common stockholders of record	255	261	
Full-time equivalent employees	318	227	
Assets per employee (in thousands)	$ 4,088	$ 4,500	
Banking offices	35	25	

[1] Other data is as of year-end, except for average shares.

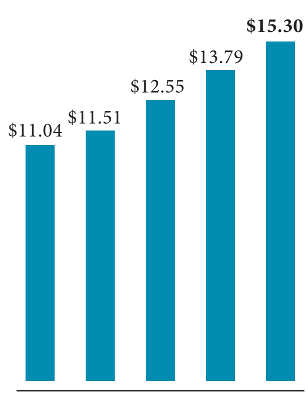
[2] Excludes unvested restricted stock award shares.



DILUTED EARNINGS PER SHARE



CASH DIVIDENDS PER SHARE



BOOK VALUE PER SHARE

[3] Diluted Earnings Per Share for fiscal 2011, excluding impact of bargain purchase gain on 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,

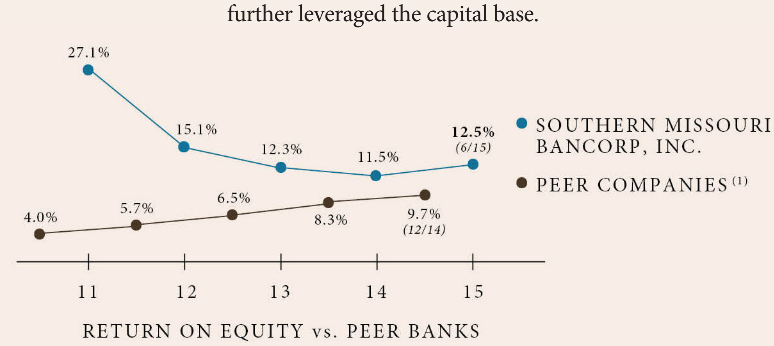
In fiscal 2015, Southern Missouri Bancorp completed a major acquisition in a key growth market; grew assets by 27.3% primarily as a result of that acquisition; improved diluted earnings per share by 23.4%; consolidated operations resulting in improved efficiency; and maintained solid core profitability and sound asset quality.

For fiscal 2015, net income available to common shareholders was $13.5 million, an increase of 36.3% from the $9.9 million earned in fiscal 2014. Included in this year's results were (pre-tax) expenses totaling $508,000 related to merger and acquisition activity.

The Company generated a return on average common equity of 12.5%, and a return on average assets of 1.07% for fiscal 2015, as compared to 11.5% and 1.09%, respectively, in fiscal 2014. 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, was more than offset by a comparable benefit associated with the fiscal 2015 acquisition of Peoples Bank of the Ozarks ("Peoples"). In fiscal 2015, we estimate that this non-core item resulting from these two significant acquired portfolios improved results by $1.5 million, after tax, compared to $395,000 in fiscal 2014.

Return on common equity compares well to peer banks

The Company's returns improved in fiscal 2015, as acquisitions and organic loan growth further leveraged the capital base.



Our net interest income improved 41.1%, primarily as a result of an increase of 36.9% in the average balance of interest-earning assets. Our net interest margin improved, from 3.81% in fiscal 2014, to 3.92% in fiscal 2015, attributable primarily to the fair value discount accretion noted above, offsetting slight core margin compression resulting from the continued low rate environment. Average loan balances increased 38.0%, while average securities balances were up 22.0%, improving the earning asset mix.

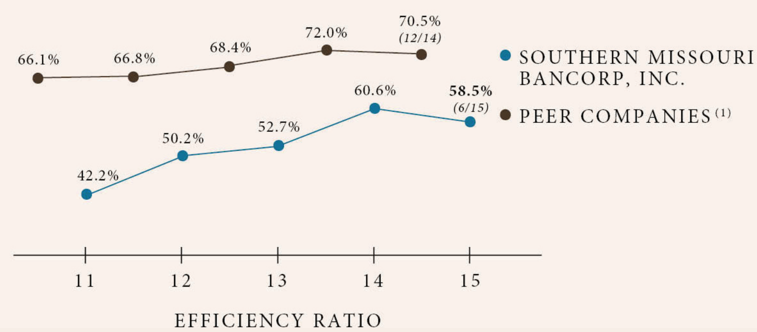
[1] *Peer data is based on the median year-end figures (December) from SNL DataSource's Index of publicly traded commercial banks and thrifts with assets of $500 million to $2 billion, headquartered in Missouri, Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee. SMBC data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

Noninterest income (exclusive of securities gains) improved 43.8% in fiscal 2015, as a full year's benefit was realized from our fiscal 2014 acquisitions, and the Peoples acquisition closed early in the fiscal year. Bank card interchange income, deposit account service charges, loan late charges and other loan fees, and secondary market loan sales continued to improve.

Noninterest expense increased 36.5% for fiscal 2015. Increases in compensation and benefits, occupancy, amortization of core deposit intangibles, advertising, and other expenses resulted primarily from the increased size of our Company following recent acquisitions. Expenses of $508,000 were attributable to merger and acquisition activity in fiscal 2015, with comparable charges of $1.2 million in the prior fiscal year. The prior fiscal year also included a charge of $376,000 for early termination of a debit card processing contract.

Efficiency remains ahead of peers

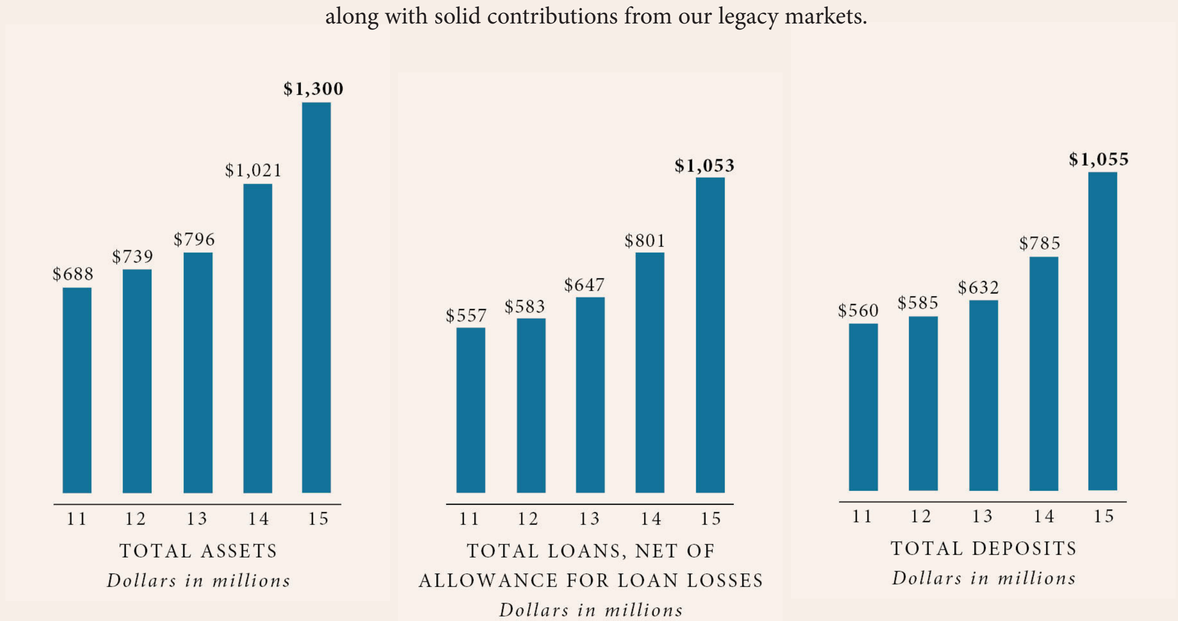
The Company improved efficiency in the past year,
with most of the benefit due to lower M&A costs;
continued improvement is a key goal for our organization.

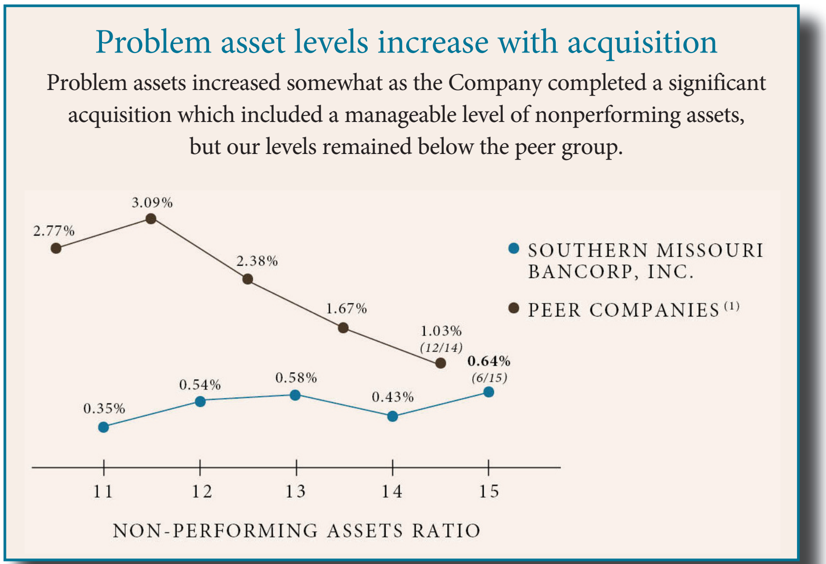


The Company had a solid year for loan growth, with an increase of $252.1 million, which was aided by the addition of $190.4 million in loans (at fair value) from the Peoples acquisition, which closed in August of 2014. As the year progressed, we saw gross loan balances at those facilities decline by approximately $28 million, somewhat offsetting organic growth in legacy branches. Loan growth consisted primarily of increases in our commercial real estate loan, residential real estate loan, and commercial loan portfolios. Deposits were up $269.4 million in total, with $222.2 million of the increase resulting from the Peoples acquisition: those balances remained relatively stable following the merger. Deposit growth resulted primarily from certificates of deposit, interest-bearing transaction accounts, noninterest-bearing transaction accounts, and money market deposit accounts.

Continued growth in loans, deposits, and total assets

Acquisition activity drove balance sheet growth in fiscal 2015,
along with solid contributions from our legacy markets.





Nonperforming assets increased to $8.3 million, or 0.64% of total assets, at June 30, 2015, as compared to $4.4 million, or 0.43% of assets, at June 30, 2014, with the increase attributable primarily to the Peoples acquisition, and also the migration of a previously-classified purchased credit impaired relationship. While peer banks have improved asset quality markedly over the last four years, our Company has grown significantly and remained acquisitive while holding problem assets at levels that compare favorably. At June 30, 2015, non-performing loans were 0.36% of gross loans, as compared to 0.17% of gross loans at June 30, 2014. Net charge-offs were 0.01% of average loans outstanding for fiscal 2015, as compared to 0.10% for fiscal 2014.

The Company completed a two-for-one common stock split in the form of a 100% common stock dividend during fiscal 2015. When adjusted for the stock split, book value per common share increased 10.9% from a year earlier, to $15.30 at June 30, 2015. Tangible book value per share, a non-GAAP measure, improved a smaller 7.0% to $14.11 at June 30, 2015, as we experienced some dilution resulting from the Peoples acquisition, as well as our $2.7 million repurchase of the warrant issued to Treasury in December of 2008. The warrant was issued in connection with our participation in the Troubled Asset Relief Program — prior to its repurchase, it would have allowed for the purchase of almost 232,000 shares of our common stock at a price of $6.18 per share. Our closing stock price for the fiscal year was $18.85, up 5.6%, as compared to the previous year end when adjusted for the stock split. Over that same one-year period, the SNL U.S. Bank Index increased 10.7%. In the five years ended June 30, 2015, our stock price has increased 151.2%, as compared to a 74.4% price increase in the SNL U.S. Bank Index. Including dividends, SMBC has returned 180.7% over that five-year period, while the SNL U.S. Bank Index has returned 90.1%.

Our dividends paid during fiscal 2015 represented a 1.8% return both on our closing stock price on the final day of the fiscal year, as well as on our average closing stock price for fiscal 2015. In July 2015, the board was pleased to increase our dividend by 5.9%, to $0.09 per quarter, effective with the August 2015 payment.

Tangible common equity as a percentage of tangible assets stood at 8.0% at the end of fiscal 2015, as compared to 8.6% at the end of fiscal 2014, primarily as a result of the Peoples acquisition. In the coming year, management plans to repurchase $20 million in preferred shares issued to the Treasury under the Small Business Lending Fund program in 2011, subject to regulatory approval, as the dividend is scheduled to increase substantially. The Company intends to repurchase the preferred stock without diluting common shareholders.

Our goals for 2016 include:

Capital management.

As noted above, the Company looks forward to the repurchase of our outstanding preferred stock and stabilization at a targeted common tangible equity ratio. Looking forward, we expect our traditional rate of organic growth to be somewhat more difficult to maintain, and we would expect capital ratios to begin to increase somewhat, absent periodic acquisition activity, stock repurchases, or changes in our dividend payout strategy. Our long-term goal would be to maintain a common tangible equity ratio of between 8.0 and 9.0 percent.

Identification of new acquisition opportunities.

Between October 2013 and August 2014, the Company completed three mergers, adding 17 facilities and approximately $350 million in deposits. As a result, we have been somewhat more conservative in choosing how and where to spend time exploring new opportunities over the past year. The opportunities presented over that time period were not ideal, and we focused our resources on integration of the acquired franchises. With that mostly achieved, we expect an increased willingness on our part to evaluate new prospects for growth in the coming years.

Improved efficiency and core profitability.

Our primary challenge in fiscal 2016 will be to improve the ability of our recently acquired operations to more closely approach the results of our more established footprint.
We hope to accomplish this with loan and deposit growth that would justify the current expense structure, but in some instances, tougher choices could be required.

As we have noted in this letter in the past, we'll continue to focus on long-term improvement in core earnings per share and growth in tangible book value. We're pleased with our achievements in these metrics over the last several years, but recognize that continued improvement on our solid record will require determination at every level of management, contributions from every department, and participation by every region within our organization.

I would like to take this occasion to specifically recognize and appreciate the contributions to our Company of our recently-retired Chairman, Samuel H. Smith. We benefited from Sam's leadership qualities, commitment, professional expertise, and strong character for more than a quarter century. We extend our warmest wishes to Sam and his devoted wife, Whitty, for every happiness in retirement.

For another year of progress, many thanks are owed to our shareholders, to my valued colleagues within this organization, and to the customers who allow us the privilege of serving them. I appreciate the opportunity to serve each of these groups, and am looking forward with optimism to the continued success of our Company.

Greg Steffens

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

> DIRECTORS <

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

Sammy A. Schalk
Vice-Chairman of the Board;
President, Gamblin Lumber Company

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

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

> 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

SOUTHERN MISSOURI BANCORP, INC.

is delivering shareholder value

by serving our communities

with a growing team of professionals

meeting our customers' needs.

Southern Missouri BANCORP

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