SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 14, 2013

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, 2012

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	43-1665523
(State or jurisdiction of incorporation)	(IRS employer id. no.)

531 Vine Street Poplar Bluff, MO	63901
(Address of principal executive offices)	(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.

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer		Accelerated filer		Non-accelerated filer		Smaller reporting company	X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act)

Yes No 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 14, 2013
Common Stock, Par Value $.01	3,257,076 Shares

SOUTHERN MISSOURI BANCORP, INC.
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PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012, AND JUNE 30, 2012

	December 31, 2012 (unaudited)	June 30, 2012
Cash and cash equivalents	$16,298,137	$33,421,099
Interest-bearing time deposits	2,154,000	1,273,000
Available for sale securities	77,650,037	75,126,845
Stock in FHLB of Des Moines	2,018,200	2,018,200
Stock in Federal Reserve Bank of St. Louis	1,001,050	1,001,050
Loans receivable, net of allowance for loan losses of $7,920,201 and $7,492,054 at December 31, 2012 and June 30, 2012, respectively	619,409,900	583,464,521
Accrued interest receivable	4,343,214	3,694,344
Premises and equipment, net	15,302,448	11,347,064
Bank owned life insurance – cash surrender value	16,212,038	15,957,500
Intangible assets, net	1,248,991	1,457,557
Prepaid expenses and other assets	14,563,185	10,427,788
Total assets	$770,201,200	$739,188,968
Deposits	$606,405,135	$584,813,624
Securities sold under agreements to repurchase	30,945,264	25,642,407
Advances from FHLB of Des Moines	24,500,000	24,500,000
Accounts payable and other liabilities	1,659,270	1,662,207
Accrued interest payable	540,099	625,659
Subordinated debt	7,217,000	7,217,000
Total liabilities	671,266,768	644,460,897
Commitments and contingencies	-	-
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 20,000 shares issued and outstanding at December 31 and June 30, 2012	20,000,000	20,000,000
Common stock, $.01 par value; 4,000,000 shares authorized; 3,257,076 and 3,252,706 shares issued at December 31 and June 30, 2012, respectively	32,571	32,527
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	22,661,022	22,479,767
Retained earnings	55,138,310	51,365,401
Treasury stock of 0 and 2,230 shares at December 31 and June 30, 2012, at cost, respectively	-	(26,315)
Accumulated other comprehensive income	925,739	699,901
Total stockholders' equity	98,934,432	94,728,071

Total liabilities and stockholders' equity	$770,201,200	$739,188,968

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2012 AND 2011 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
INTEREST INCOME:				
Loans	$8,730,367	$9,257,578	$17,584,301	$18,812,703
Investment securities	376,663	389,006	739,366	742,183
Mortgage-backed securities	79,632	244,822	205,395	521,389
Other interest-earning assets	11,106	51,888	30,355	80,922
Total interest income	9,197,768	9,943,294	18,559,417	20,157,197
INTEREST EXPENSE:				
Deposits	1,496,722	2,163,200	3,076,424	4,446,184
Securities sold under agreements to repurchase	54,165	59,342	102,467	119,044
Advances from FHLB of Des Moines	258,742	339,391	513,454	678,782
Subordinated debt	57,646	59,719	116,772	113,767
Total interest expense	1,867,275	2,621,652	3,809,117	5,357,777
NET INTEREST INCOME	7,330,493	7,321,642	14,750,300	14,799,420
PROVISION FOR LOAN LOSSES	462,017	345,433	1,072,706	862,116
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,868,476	6,976,209	13,677,594	13,937,304
NONINTEREST INCOME:				
Deposit account charges and related fees	442,291	377,041	874,107	748,192
Bank credit transaction fees	289,790	263,776	588,309	527,382
Loan late charges	52,705	57,509	104,261	116,433
Other loan fees	73,019	49,005	145,579	99,308
Net realized gains on sale of loans	89,700	49,354	142,856	143,032
Earnings on bank owned life insurance	128,717	71,398	254,538	142,951
Other income	41,678	30,999	68,231	238,278
Total noninterest income	1,117,900	899,082	2,177,881	2,015,576
NONINTEREST EXPENSE:				
Compensation and benefits	2,523,408	2,274,303	4,984,574	4,526,394
Occupancy and equipment, net	681,323	619,496	1,373,234	1,201,701
Deposit insurance premiums	92,121	90,063	186,667	183,135
Legal and professional fees	116,193	94,923	215,252	193,074
Advertising	84,452	80,150	143,351	167,218
Postage and office supplies	123,027	110,293	226,550	232,878
Intangible amortization	104,283	104,283	208,566	208,566
Bank card network fees	142,653	130,742	286,763	262,818
Other operating expense	573,110	379,491	953,572	690,950
Total noninterest expense	4,440,570	3,883,744	8,578,529	7,666,734
INCOME BEFORE INCOME TAXES	3,545,806	3,991,547	7,276,946	8,286,146
INCOME TAXES	1,064,886	1,317,107	2,205,772	2,761,314
NET INCOME	$2,480,920	$2,674,440	$5,071,174	$5,524,832

Less: effective dividend on preferred shares	50,000	121,713	245,115	352,111
Net income available to common shareholders	$2,430,920	$2,552,727	$4,826,059	$5,172,721
Basic earnings per common share	$0.75	$0.98	$1.49	$2.21
Diluted earnings per common share	$0.72	$0.95	$1.43	$2.12
Dividends per common share	$0.15	$0.12	$0.30	$0.24

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2012 AND 2011 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
Net income	$2,480,920	$2,674,440	$5,071,174	$5,524,832
Other comprehensive income:				
Unrealized (losses) gains on securities available-for-sale	(14,363)	74,330	343,157	469,252
Unrealized gains (losses) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	15,234	(58,813)	15,318	(72,843)
Tax (expense) benefit	(322)	5,741	(132,635)	(146,672)
Total other comprehensive income	549	21,258	225,840	249,737
Comprehensive income	$2,481,469	$2,695,698	$5,297,014	$5,774,569

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED DECEMBER 31, 2012 AND 2011 (Unaudited)

	Six months ended December 31, 2012	2011
Cash Flows From Operating Activities:		
Net income	$5,071,174	$5,524,832
Items not requiring (providing) cash:		
Depreciation	537,074	425,440
Loss on disposal of fixed assets	20,875	-
Equity award and stock option expense	107,095	11,013
Loss on sale of foreclosed assets	(71,874)	(97,589)
Amortization of intangible assets	208,566	208,566
Increase in cash surrender value of bank owned life insurance	(254,538)	(142,951)
Provision for loan losses and off-balance sheet credit exposures	1,072,706	862,116
Net amortization of premiums and discounts on securities	287,784	122,397
Deferred income taxes	(263,837)	(498,144)
Origination of loans held for sale	(3,389,505)	(4,150,161)
Proceeds from sales of loans held for sale	3,334,344	6,251,520
Changes in:		
Accrued interest receivable	(648,871)	(460,047)
Prepaid expenses and other assets	(2,483,778)	446,666
Accounts payable and other liabilities	617,223	(4,185,594)
Accrued interest payable	(85,560)	(111,463)
Net cash provided by operating activities	4,058,878	4,206,601
Cash flows from investing activities:		
Net (increase) decrease in loans	(40,078,326)	10,766,899
Net cash received in acquisitions	-	-
Net change in interest-bearing deposits	(881,000)	-
Proceeds from maturities of available for sale securities	18,931,321	12,669,482
Net purchases of Federal Reserve Bank of Saint Louis stock	-	(282,150)
Purchases of available-for-sale securities	(21,383,823)	(23,616,844)
Purchases of premises and equipment	(4,539,833)	(2,771,990)
Proceeds from sale of fixed assets	26,500	-
Proceeds from sale of foreclosed assets	1,046,700	470,996
Net cash used in investing activities	(46,878,461)	(2,763,607)
Cash flows from financing activities:		
Net increase in demand deposits and savings accounts	15,922,582	56,623,211
Net increase (decrease) in certificates of deposits	5,668,929	(7,747,807)
Net increase in securities sold under agreements to repurchase	5,302,857	4,719,362
Redemption of preferred stock	-	(9,550,000)
Proceeds from issuance of preferred stock	-	19,973,208
Proceeds from issuance of common stock	66,555	19,914,349
Dividends paid on preferred stock	(311,553)	(197,047)

Dividends paid on common stock	(983,712)	(503,874)
Exercise of stock options	33,963	15,230
Net cash provided by financing activities	25,699,621	83,246,632
(Decrease) increase in cash and cash equivalents	(17,122,962)	84,689,626
Cash and cash equivalents at beginning of period	33,421,099	33,895,706
Cash and cash equivalents at end of period	$16,298,137	$118,585,332
Supplemental disclosures of Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$2,984,720	$517,000
Conversion of foreclosed real estate to loans	68,400	520,728
Conversion of loans to repossessed assets	199,082	138,376
Cash paid during the period for:		
Interest (net of interest credited)	$1,510,425	$1,757,762
Income taxes	1,541,084	4,276,570

See Notes to Condensed Consolidated Financial Statements

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

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2012, 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, 2012, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the audited consolidated financial statements included in the Company's June 30, 2012, Form 10-K, which was filed with the SEC.

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Southern Bank (Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: 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 Bank (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.

The Bank is primarily engaged in providing a full range of banking and financial services to individuals and corporate customers in its market areas. The Bank and Company are subject to competition from other financial institutions. The Bank and Company are subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

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 investment or loan portfolios resulting from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of the investment portfolio, collateral underlying loans receivable, and the value of the Company's investments in real estate.

Principles of Consolidation. The condensed 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, estimated fair values of purchased loans, other-than-temporary impairments (OTTI), and fair value of financial instruments.

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 $14,253,000 and $31,048,000 at December 31 and June 30, 2012, respectively. The deposits are held in various commercial banks in amounts not exceeding the FDIC’s deposit insurance limits, as well as at the Federal Reserve, and the Federal Home Loan Bank of Des Moines.

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 income, 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.

When the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. As a result, the Company's balance sheet as of the dates presented reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

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

Loans. Loans are generally 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. The Company complies with regulatory guidance which indicates that loans should be placed in nonaccrual status when 90 days past due, unless the loan is both well-secured and in the process of collection. A loan that is "in the process of collection" may be subject to legal action or, in appropriate circumstances, through other collection efforts reasonably expected to result in repayment or restoration to current status in the near future. 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 collectability 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, based on management’s analysis of expected cash flow (for non-collateral dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries of loans previously charged off, if any, are credited to the allowance 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.

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. Depending on a particular loan’s circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. Valuation allowances are established for collateral-dependent impaired loans for the difference between the loan amount and fair value of collateral less estimated selling costs. For impaired loans that are not collateral dependent, a valuation allowance is established for the difference between the loan amount and the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. Impairment losses are recognized through an increase in the required allowance for loan losses. Cash receipts on loans deemed impaired are recorded based on the loan's separate status as a nonaccrual loan or an accrual status loan.

As a result of the acquisition of the former First Southern Bank, Batesville, Arkansas, the Company acquired certain loans with an outstanding principal balance of $14.2 million for which it was deemed probable that we would be unable to collect all contractually required payments. These loans are accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company recorded a fair value discount of $3.9 million related to these loans acquired with deteriorated credit quality ("purchased credit impaired loans"), and began carrying them at a value of $10.3 million. For these loans, we determined the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows"), and estimated the amount and timing of undiscounted expected principal and interest payments, including expected prepayments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference is an estimate of the loss exposure of principal and interest related to the purchased credit impaired loans, and the amount is subject to change over time based on the performance of the loans. The carrying value of purchased credit impaired loans is initially determined as the discounted expected cash flows. The excess of expected cash flows at acquisition over the initial fair value of the purchased credit impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the acquired loans using the level-yield method, if the timing and amount of the future cash flows is reasonably estimable. The carrying value of purchased credit impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income. Subsequent to acquisition, the Company evaluates the purchased credit impaired loans on a quarterly basis. Increases in expected cash flows compared to those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in expected cash flows compared to those previously estimated decrease the accretable yield and may result in the establishment of an allowance for loan losses and a provision for loan losses. Purchased credit impaired loans are generally considered accruing and performing loans, as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, purchased credit impaired loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans.

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 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 10 to 40 years for premises, five to seven years for equipment, and three years for software.

Intangible Assets. Identifiable intangible assets are being amortized on a straight-line basis over periods ranging from five to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Goodwill is tested periodically for impairment.

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Equity Incentive Plan. The Company accounts for its Equity Incentive Plan (EIP) and Management Recognition Plan (MRP) in accordance with ASC 718, “Share-Based Payment.” 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.

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.

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. With limited exceptions, the amount of compensation cost related to a stock option award 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. Stock-based compensation has been recognized for all stock options granted or modified after July 1, 2005.

Earnings Per Share. Basic earnings per share available to common stockholders is computed using the weighted-average number of common shares outstanding. Diluted earnings per share available to common stockholders includes the effect of all weighted-average dilutive potential common shares (stock options and warrants) outstanding during each period.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, and changes in the funded status of defined benefit pension plans.

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

Reclassification. Certain amounts included in the consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In July 2012, the Financial Accounting Standards board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity would not be required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines, based on qualitative assessment, that it is more likely than not the indefinite-lived intangible asset is impaired. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15 2012. The Company adopted the standard on July 1, 2012, and adoption did not have a significant impact on the Company's financial statements.

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements. The amendments in this ASU make technical corrections, clarifications, and limited-scope improvements to various Topics throughout the Codification. This ASU is effective for public entities for fiscal periods beginning after December 15, 2012.

In October 2012, the FASB issued ASU 2012-06, Subsequent Account for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. The amendments in this ASU provide that when a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The ASU is effective for public entities for fiscal periods beginning on or after December 15, 2012. The Company does not anticipate any impact on the financial statements.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in this ASU address implementation issues about the scope of ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The objective of the ASU is to clarify the scope of the offsetting disclosures and address any unintended consequences. The ASU is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is evaluating the impact of the ASU, but does not expect a material impact on the financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Comprehensive Income. The amendments in this ASU are intended to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. The ASU is effective for public entities for reporting periods beginning after December 15, 2012. The Company is evaluating the impact of the ASU, but does not expect a material impact on the financial statements.

Note 3: Securities

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$19,006,654	$40,597	$(17,696)	$19,029,555
State and political subdivisions	37,905,128	2,145,259	(45,536)	40,004,851
Other securities	2,642,156	43,472	(1,162,916)	1,522,712
FHLMC preferred stock	-	-	-	-
Mortgage-backed: GSE residential	13,973,637	463,793	(22,521)	14,414,909
Mortgage-backed: other U.S. government agencies	2,681,357	-	(3,347)	2,678,010
Total investments and mortgage-backed securities	$76,208,932	$2,693,121	$(1,252,016)	$77,650,037

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$18,046,654	$53,348	$(384)	$18,099,618
State and political subdivisions	34,656,284	1,823,625	(98,656)	36,381,253
Other securities	2,646,719	14,310	(1,267,772)	1,393,257
Mortgage-backed: GSE residential	15,657,921	565,989	(7,861)	16,216,049
Mortgage-backed: other U.S. government agencies	3,036,637	31	-	3,036,668
Total investments and mortgage-backed securities	$74,044,215	$2,457,303	$(1,374,673)	$75,126,845

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 penalties.

	December 31, 2012	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$307,655	$307,653
After one year but less than five years	8,149,938	8,207,128
After five years but less than ten years	22,581,203	23,094,611
After ten years	28,515,142	28,947,726
Total investment securities	59,553,938	60,557,118
Mortgage-backed securities	16,654,994	17,092,919
Total investments and mortgage-backed securities	$76,208,932	$77,650,037

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 December 31 and June 30, 2012:

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$7,978,296	$17,696	$-	$-	$7,978,296	$17,696
State and political subdivision	4,791,949	45,536	-	-	4,791,949	45,536

Other securities	-	-	378,149	1,162,916	378,149	1,162,916
Mortgage-backed: GSE residential	2,850,979	22,521	-	-	2,850,979	22,521
Mortgage-backed: other U.S. government agencies	2,678,010	3,347	-	-	2,678,010	3,347
Total investments and mortgage-backed securities	$18,299,234	$89,100	$378,149	$1,162,916	$18,677,383	$1,252,016

	June 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$999,616	$384	$-	$-	$999,616	$384
State and political subdivisions	5,525,825	98,656	-	-	5,525,825	98,656
Other securities	-	-	282,639	1,267,772	282,639	1,267,772
Mortgage-backed: GSE residential	1,943,968	7,861	-	-	1,943,968	7,861
Total investments and mortgage-backed securities	$8,469,409	$106,901	$282,639	$1,267,772	$8,752,048	$1,374,673

Other securities. At December 31, 2012, there were four pooled trust preferred securities with an estimated fair value of $393,000 and unrealized losses of $1.2 million in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the pooled trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the financial institutions that have issued the underlying trust preferred securities.

The December 31, 2012, cash flow analysis for three of these securities showed it is probable the Company will receive all contracted principal and related interest projected. The cash flow analysis used in making this determination was based on anticipated default and recovery rates, amounts of prepayments, and the resulting cash flows were discounted based on the yield anticipated at the time the securities were purchased. Other inputs include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions, including profitability, capital ratios, and asset quality. Assumptions for these three securities included prepayments by banks of $15 billion or more in assets of all fixed rate securities during 2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those by issuers with strong capital positions and with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 29% to 44% on currently deferred issuers within the next two years; no net new deferrals for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter.

One of these three securities continues to receive cash interest payments in full and our cash flow analysis indicates that these payments are likely to continue. Because the Company does not intend to sell this security and it is not more-likely-than-not that the Company will be required to sell the security prior to recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2012.

For the other two of these three securities, the Company is receiving principal-in-kind (PIK), in lieu of cash interest. These securities allow, under the terms of the issue, for issuers to defer interest for up to five consecutive years. After five years, if not cured, the securities are considered to be in default and the trustee may demand payment in full of principal and accrued interest. Issuers are also considered to be in default in the event of the failure of the issuer or a subsidiary. Both deferred and defaulted issuers are considered non-performing, and the trustee calculates, on a quarterly or semi-annual basis, certain coverage tests prior to the payment of cash interest to owners of the various tranches of the securities. The tests must show that performing collateral is sufficient to meet requirements for senior tranches, both in terms of cash flow and collateral value, before cash interest can be paid to subordinate tranches. If the tests are not met, available cash flow is diverted to pay down the principal balance of senior tranches until the coverage tests are met, before cash interest payments to subordinate tranches may resume. The Company is receiving PIK for these two securities due to failure of the required coverage tests described above at senior tranche levels of these securities. The risk to holders of a tranche of a security in PIK status is that the pool’s total cash flow will not be sufficient to repay all principal and accrued interest related to the investment. The impact of payment of PIK to subordinate tranches is to strengthen the position of senior tranches, by reducing the senior tranches’ principal balances relative to available collateral and cash flow, while increasing principal balances, decreasing cash flow, and increasing credit risk to the tranches receiving PIK. For our securities in receipt of PIK, the principal balance is increasing, cash flow has stopped, and, as a result, credit risk is increasing. The Company expects these securities to remain in PIK status for a period of four to five years. Despite these facts, because the Company does not intend to sell these two securities and it is not more-likely-than-not that the Company will be required to sell these two securities prior to recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2012.

At December 31, 2008, analysis of the fourth pooled trust preferred security indicated other-than-temporary impairment (OTTI) and the Company performed further analysis to determine the portion of the loss that was related to credit conditions of the underlying issuers. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. The discounted cash flow was based on anticipated default and recovery rates, and resulting projected cash flows were discounted based on the yield anticipated at the time the security was purchased. Based on this analysis, the Company recorded an impairment charge of $375,000 for the credit portion of the unrealized loss for this trust preferred security. This loss established a new, lower amortized cost basis of $125,000 for this security, and reduced non-interest income for the second quarter and the twelve months ended June 30, 2009. At December 31, 2012, cash flow analyses showed it is probable the Company will receive all of the remaining cost basis and related interest projected for the security. The cash flow analysis used in making this determination was based similar inputs and factors as those described above. Assumptions for this security included prepayments by banks of $15 billion or more in assets of all fixed rate securities during 2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 49% on currently deferred issuers within the next two years; no net new deferrals for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter. This security is in PIK status due to similar criteria and factors as those described above, with similar impact to the Company. This security is projected to remain in PIK status for a period of two years. Because the Company does not intend to sell this security and it is not more-likely-than-not the Company will be required to sell this security before recovery of its new, lower amortized cost basis, which

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may be maturity, the Company does not consider the remainder of the investment in this security to be other-than-temporarily impaired at December 31, 2012.

The Company does not believe any other individual unrealized loss as of December 31, 2012, represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. 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 the period the other-than-temporary impairment is identified.

Credit losses recognized on investments. As described above, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses, but are not otherwise other-than-temporarily impaired. During fiscal 2009, the Company adopted ASC 820, formerly FASB Staff Position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the six-month periods ended December 31, 2012 and 2011.

	Accumulated Credit Losses, Six-Month Period Ended December 31,	
	2012	2011
Credit losses on debt securities held		
Beginning of period	$375,000	$375,000
Additions related to OTTI losses not previously recognized	-	-
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously-recognized OTTI losses	-	-
Reductions due to increases in expected cash flows	-	-
End of period	$375,000	$375,000

Note 4: Loans and Allowance for Loan Losses

Classes of loans are summarized as follows:

	December 31, 2012	June 30, 2012
Real Estate Loans:		
Residential	$225,901,693	$201,012,698
Construction	22,115,280	40,181,979
Commercial	235,210,968	200,957,429
Consumer loans	28,187,249	28,985,905
Commercial loans	125,163,107	137,004,222
	636,578,297	608,142,233
Loans in process	(9,406,500)	(17,370,404)
Deferred loan fees, net	158,304	184,746
Allowance for loan losses	(7,920,201)	(7,492,054)
Total loans	$619,409,900	$583,464,521

The Company's lending activities consist of origination of loans secured by mortgages on one- to four-family residences and commercial and agricultural real estate, construction loans on residential and commercial properties, commercial and agricultural business loans and consumer loans. The Company has also occasionally purchased loan participation interests originated by other lenders and secured by properties generally located in the states of Missouri and Arkansas.

Residential Mortgage Lending. The Company actively originates loans for the acquisition or refinance of one- to four-family residences. This category includes both fixed-rate and adjustable-rate mortgage ("ARM") loans amortizing over periods of up to 30 years, and the properties securing such loans may be owner-occupied or non-owner-occupied. Single-family residential loans do not generally exceed 90% of the lower of the appraised value or purchase price of the secured property. Substantially all of the one- to four-family residential mortgage originations in the Company's portfolio are located within the Company's primary market area.

The Company also originates loans secured by multi-family residential properties that are generally located in the Company's primary market area. The majority of the multi-family residential loans that are originated by the Bank are amortized over periods generally up to 20 years, with balloon maturities typically up to five years. Both fixed and adjustable interest rates are offered and it is typical for the Company to include an interest rate "floor" in the loan agreement. Generally, multi-family residential loans do not exceed 85% of the lower of the appraised value or purchase price of the secured property.

Construction Lending. The Company originates real estate loans secured by property or land that is under construction or development. Construction loans originated by the Company are generally secured by 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 or non-owner occupied commercial real estate. During construction, these loans typically require monthly interest-only payments and have maturities ranging from six to twelve months. Once construction is completed, permanent construction loans may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally up to 20 years on commercial real estate.

While the Company typically utilizes maturity periods ranging from 6 to 12 months to closely monitor the inherent risks associated with construction loans for these loans, weather conditions, change orders, availability of materials and/or labor, and other factors may contribute to the lengthening of a project, thus necessitating the need to renew the construction loan at the balloon maturity. Such extensions are typically executed in incremental three month periods to facilitate project completion. The Company's average term of construction loans is approximately 14 months. During construction, loans typically require monthly interest only payments which may allow the Company an opportunity to monitor for early signs of financial difficulty should the borrower fail to make a required monthly payment. Additionally, during the construction phase, the Company typically obtains interim inspections completed by an independent third party. This monitoring further allows the Company opportunity to assess risk. At December 31, 2012, construction loans outstanding included 13 loans, totaling $1.3 million, for which a modification had been agreed to. At June 30, 2012, construction loans outstanding included 18 loans, totaling $11.0 million, for which a modification had been agreed to. All modifications were solely for the purpose of extending the maturity date due to conditions described above. None of these modifications were executed due to financial difficulty on the part of the borrower and, therefore, were not accounted for as TDRs.

Commercial Real Estate Lending. The Company actively originates loans secured by commercial real estate including land (improved, unimproved, and farmland), strip shopping centers, retail establishments and other businesses generally located in the Company's primary market area.

Most commercial real estate loans originated by the Company 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 of 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. The Company typically includes an interest rate "floor" in the loan agreement. 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. Agricultural real estate terms offered differ slightly, with amortization schedules of up to 25 years with an 80% loan-to-value ratio, or 30 years with a 75% loan-to-value ratio.

Consumer Lending. The Company offers a variety of secured consumer loans, including home equity, direct and indirect automobile loans, second mortgages, mobile home loans and loans secured by deposits. The Company 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.

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 and are typically issued for a term of ten years. Interest rates on the HELOCs are generally adjustable. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity.

Automobile loans originated by the Company include both direct loans and a smaller amount of loans originated by auto dealers. The Company generally pays a negotiated fee back to the dealer for indirect loans. 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.

Commercial Business Lending. The Company'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, including agricultural production and equipment loans. The Company offers both fixed and adjustable rate commercial business loans. Generally, commercial loans secured by fixed assets are amortized over periods up to five years, while commercial operating lines of credit or agricultural production lines are generally for a one year period.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans (excluding loans in process and deferred loan fees) based on portfolio segment and impairment methods as of December 31, 2012, and June 30, 2012, and activity in the allowance for loan losses for the three- and six-month periods ended December 31, 2012 and 2011:

	At period end for the six months ended December 31, 2012						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,635,346	$243,169	$2,985,838	$483,597	$2,144,104	$-	$7,492,054
Provision charged to expense	290,255	(90,913)	815,427	44,680	13,257	-	1,072,706
Losses charged off	(203,242)	-	(417,071)	(8,589)	(29,466)	-	(658,368)
Recoveries	224	-	4,462	6,698	2,425	-	13,809
Balance, end of period	$1,722,583	$152,256	$3,388,656	$526,386	$2,130,320	$-	$7,920,201
Ending Balance: individually evaluated for impairment	$-	$-	$100,000	$-	$-	$-	$100,000
Ending Balance: collectively evaluated for impairment	$1,722,583	$152,256	$3,288,656	$526,386	$1,620,333	$-	$7,310,214
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-	$509,987	$-	$509,987
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$165,144	$-	$-	$-	$165,144

Ending Balance: collectively evaluated for impairment	$224,220,783	$12,708,780	$233,397,723	$28,187,249	$123,862,663	$-	$622,377,198
Ending Balance: loans acquired with deteriorated credit quality	$1,680,910	$-	$1,648,101	$-	$1,300,444	$-	$4,629,455

	For the three months ended December 31, 2012						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,714,363	$ 191,784	$ 3,456,760	$522,655	$ 2,195,276	$ -	$8,080,838
Provision charged to expense	197,478	(39,528)	344,852	(683)	(40,102)	-	462,017
Losses charged off	(189,370)	-	(416,843)	-	(26,223)	-	(632,436)
Recoveries	112	-	3,887	4,414	1,369	-	9,782
Balance, end of period	$1,722,583	$ 152,256	$ 3,388,656	$526,386	$ 2,130,320	$ -	$7,920,201

	For the six months ended December 31, 2011						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,618,285	$ 192,752	$ 2,671,482	$441,207	$ 1,514,725	$ -	$6,438,451
Provision charged to expense	304,647	(10,192)	3,743	214,197	349,722	-	862,116
Losses charged off	(91,369)	-	(24,824)	(127,767)	(33,625)	-	(277,585)
Recoveries	6,551	460	430	7,143	9,024	-	23,608
Balance, end of period	$1,838,114	$ 183,020	$ 2,650,831	$534,780	$ 1,839,846	$ -	$7,046,590
Ending Balance: individually evaluated for impairment	$-	$ -	$ 100,000	$-	$ -	$ -	$100,000
Ending Balance: collectively evaluated for impairment	$1,838,114	$ 183,020	$ 2,409,101	$534,780	$ 1,817,931	$ -	$6,782,945
	$-	$ -	$ 141,730	$-	$ 21,915	$ -	$163,645

Ending Balance: loans acquired with deteriorated credit quality

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	For three months ended December 31, 2011						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,711,466	$ 375,531	$ 2,256,971	$520,918	$ 1,887,175	$ -	$6,752,061
Provision charged to expense	139,154	(192,511)	393,202	39,471	(33,883)	-	345,433
Losses charged off	(14,452)	-	-	(31,161)	(22,470)	-	(68,083)
Recoveries	1,946	-	658	5,551	9,024	-	17,179
Balance, end of period	$1,838,114	$ 183,020	$ 2,650,831	$534,780	$ 1,839,846	$ -	$7,046,590

	June 30, 2012						
	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, end of period	$1,635,346	$243,169	$2,985,838	$483,597	$2,144,104	$-	$7,492,054
Ending Balance: individually evaluated for impairment	$-	$-	$347,815	$-	$-	$-	$347,815
Ending Balance: collectively evaluated for impairment	$1,635,346	$243,169	$2,632,679	$483,597	$1,767,967	$-	$6,762,758
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$5,344	$-	$376,137	$-	$381,481
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$976,881	$-	$-	$-	$976,881
Ending Balance: collectively	$199,514,689	$22,811,575	$198,296,430	$28,985,905	$135,649,513	$-	$585,258,112

evaluated for impairment Ending Balance: loans acquired with deteriorated credit quality	$1,498,009	$-	$1,684,118	$-	$1,354,709	$-	$4,536,836

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to cover probable credit losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when an amount is determined to be uncollectible, based on management's analysis of expected cash flow (for non-collateral-dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

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.

During fiscal 2011, the Company changed its allowance methodology to consider, as the primary quantitative factor, average net charge offs over the most recent twelve-month period. The Company had previously considered average net charge offs over the most recent five-year period as the primary quantitative factor. The impact of the modification was minimal.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest will not be able to be collected when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, individual consumer and residential loans are not separately identified for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

The general component covers non-impaired loans and is based on quantitative and qualitative factors. The loan portfolio is stratified into homogeneous groups of loans that possess similar loss characteristics and an appropriate loss ratio adjusted for qualitative factors is applied to the homogeneous pools of loans to estimate the incurred losses in the loan portfolio.

Included in the Company's loan portfolio are certain loans accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans were written down at acquisition to an amount estimated to be collectible. As a result, certain ratios regarding the Company's loan portfolio and credit quality cannot be used to compare the Company to peer companies or to compare the Company's current credit quality to prior periods. The ratios particularly affected by accounting under ASC 310-30 include the allowance for loan losses as a percentage of loans, nonaccrual loans, and nonperforming assets, and nonaccrual loans and nonperforming loans as a percentage of total loans.

The following tables present the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and payment activity as of December 31 and June 30, 2012. These tables include purchased credit impaired loans, which are reported according to risk categorization after acquisition based on the Company's standards for such classification:

	December 31, 2012				
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$225,796,824	$12,699,677	$233,361,886	$28,175,550	$123,822,714
Watch	1,618,763	1,613,159	59,072	29,430	1,193
Special Mention	-	-	-	-	-
Substandard	104,869	9,103	1,849,082	11,699	1,340,393
Doubtful	-	-	-	-	-

Total	$225,901,693	$12,708,780	$235,210,968	$28,187,249	$125,163,107

	June 30, 2012				
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$198,847,363	$22,811,575	$194,280,920	$28,967,594	$129,572,873
Watch	1,561,263	-	149,940	-	5,398,255
Special Mention	-	-	-	-	-
Substandard	604,072	-	6,526,569	18,311	2,033,094
Doubtful	-	-	-	-	-
Total	$201,012,698	$22,811,575	$200,957,429	$28,985,905	$137,004,222

The above amounts include purchased credit impaired loans. At December 31, 2012, these loans comprised $37,000 of credits rated "Pass"; $1.6 million of credits rated "Watch"; no credits rated "Special Mention"; $2.9 million of loans rated "Substandard"; and no credits rated "Doubtful". At June 30, 2012, these loans comprised $1.5 million of credits rated "Pass"; no credits rated "Watch"; no credits rated "Special Mention"; $3.0 million of credits rated "Substandard"; and no credits rated "Doubtful".

Credit Quality Indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at origination, and is updated on a quarterly basis for loans risk rated "Special Mention", "Substandard", or "Doubtful". In addition, lending relationships over $250,000 are subject to an independent loan review following origination, and lending relationships in excess of $2.5 million are subject to an independent loan review annually, as are a sample of lending relationships between $1.0 million and $2.5 million, in order to verify risk ratings.

The Company uses the following definitions for risk ratings:

Watch – Loans classified as watch exhibit weaknesses that require more than usual monitoring. Issues may include deteriorating financial condition, payments made after due date but within 30 days, adverse industry conditions or management problems.

Special Mention – Loans classified as special mention exhibit signs of further deterioration but still generally make payments within 30 days. This is a transitional rating and loans should typically not be rated Special Mention for more than 12 months

Substandard – Loans classified as substandard possess weaknesses that jeopardize the ultimate collection of the principal and interest outstanding. These loans exhibit continued financial losses, ongoing delinquency, overall poor financial condition, and insufficient collateral. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses of substandard loans, and have deteriorated to the level that there is a high probability of substantial loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of December 31 and June 30, 2012. These tables include purchased credit impaired loans, which are reported according to aging analysis after acquisition based on the Company's standards for such classification:

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Residential	$1,316,593	$130,947	$664,966	$2,112,506	$223,789,187	$225,901,693	$293
Construction	-	-	100,351	100,351	12,608,429	12,708,780	-
Commercial	353,561	101,951	127,968	583,480	234,627,488	235,210,968	-
Consumer loans	226,460	28,792	526	255,778	27,931,471	28,187,249	526
Commercial loans	158,518	180,197	90,381	429,096	124,734,011	125,163,107	17,012
Total loans	$2,055,132	$441,887	$984,192	$3,481,211	$623,690,586	$627,171,797	$17,831

	June 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Residential	$310,046	$66,586	$59,142	$435,774	$200,576,924	$201,012,698	$-
Construction	-	-	-	-	22,811,575	22,811,575	-
Commercial	176,642	41,187	796,794	1,014,623	199,942,806	200,957,429	-
Consumer loans	78,762	-	-	78,762	28,907,143	28,985,905	-
Commercial loans	694,044	-	80,000	774,044	136,230,178	137,004,222	-
Total loans	$1,259,494	$107,773	$935,936	$2,303,203	$588,468,626	$590,771,829	$-

The above amounts include purchased credit impaired loans. At December 31, 2012, these loans comprised $206,000 credits 30-59 Days Past Due; no credits 60-89 Days Past Due; no credits Greater Than 90 Days Past Due; $206,000 of Total Past Due credits; $4.4 million of credits Current; and $0 Loans > 90 Days & Accruing. At June 30, 2012, there were no purchased credit impaired loans that were past due.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, as well as performing loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The tables below present impaired loans (excluding loans in process and deferred loan fees) as of December 31 and June 30, 2012. These tables include purchased credit impaired loans. Purchased credit impaired loans are those for which it was deemed probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will exceed the amount previously expected, the Company will recalculate the amount of accretable yield in order to recognize the improved cash flow expectation as additional interest income over the remaining life of the loan. These loans, however, will continue to be reported as impaired loans. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will be less than the amount previously expected, the Company will allocate a specific allowance under the terms of ASC 310-10-35.

	December 31, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,680,910	$2,111,128	$-
Construction real estate	100,351	100,351	-
Commercial real estate	3,285,260	3,654,711	-
Consumer loans	-	-	-
Commercial loans	677,060	686,828	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	165,144	165,144	100,000
Consumer loans	-	-	-
Commercial loans	896,773	1,466,650	509,987
Total:			
Residential real estate	$1,680,910	$2,111,128	$-
Construction real estate	$100,351	$100,351	$-
Commercial real estate	$3,450,404	$3,819,855	$100,000
Consumer loans	$-	$-	$-
Commercial loans	$1,573,833	$2,153,478	$509,987

	June 30, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Residential real estate	$1,531,881	$2,160,350	$-
Construction real estate	-	-	-

Commercial real estate	2,563,744	2,935,620	-
Consumer loans	-	-	-
Commercial loans	845,692	868,844	-
Loans with a specific valuation allowance:			
Residential real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	982,884	1,014,082	353,159
Consumer loans	-	-	-
Commercial loans	930,123	1,500,000	376,137
Total:			
Residential real estate	$1,531,881	$2,160,350	$-
Construction real estate	$-	$-	$-
Commercial real estate	$3,546,628	$3,949,702	$353,159
Consumer loans	$-	$-	$-
Commercial loans	$1,775,815	$2,368,844	$376,137

The above amounts include purchased credit impaired loans. At December 31, 2012, these loans comprised $3.7 million of impaired loans without a specific valuation allowance; $897,000 of loans with a specific valuation allowance; and $4.6 million of total impaired loans. At June 30, 2012, these loans comprised $3.6 million of impaired loans without a specific valuation allowance; $935,000 of loans with a specific valuation allowance; and $4.5 million of total impaired loans.

The following tables present information regarding interest income recognized on impaired loans:

(dollars in thousands)	For the three-month period ended December 31, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$ 1,799	$ 141
Construction Real Estate	-	-
Commercial Real Estate	1,668	48
Consumer Loans	165	-
Commercial Loans	1,306	24
Total Loans	$ 4,938	$ 213

(dollars in thousands)	For the three-month period ended December 31, 2011	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$ 1,703	$ 79
Construction Real Estate	-	-
Commercial Real Estate	2,445	174
Consumer Loans	-	-
Commercial Loans	2,008	121
Total Loans	$ 6,155	$ 374

(dollars in thousands)	For the six-month period ended December 31, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$ 1,589	$ 269
Construction Real Estate	-	-
Commercial Real Estate	2,375	98
Consumer Loans	-	-
Commercial Loans	1,322	49
Total Loans	$ 5,286	$ 416

(dollars in thousands)	For the six-month period ended December 31, 2011	
	Average Investment in Impaired Loans	Interest Income Recognized
Residential Real Estate	$ 1,654	$ 158
Construction Real Estate	-	-
Commercial Real Estate	2,866	295

Consumer Loans	-	-
Commercial Loans	2,514	450
Total Loans	$ 7,034	$ 903

Interest income on impaired loans recognized on a cash basis in the three- and six-month periods ended December 31, 2012 and 2011, was immaterial.

For the three- and six-month periods ended December 31, 2012, the amount of interest income recorded for impaired loans that represented a change in the present value of cash flows attributable to the passage of time was approximately $210,000 and $411,000, respectively, as compared to $371,000 and $881,000, respectively, for the three- and six-month periods ended December 31, 2011.

The following table presents the Company's nonaccrual loans at December 31 and June 30, 2012. This table includes purchased impaired loans. Purchased credit impaired loans are placed on nonaccrual status in the event the Company cannot reasonably estimate cash flows expected to be collected. The table excludes performing troubled debt restructurings.

	December 31, 2012	June 30, 2012
Residential real estate	$ 602,735	$ 395,374
Construction real estate	100,351	-
Commercial real estate	323,199	976,881
Consumer loans	11,183	15,971
Commercial loans	1,153,143	1,010,123
Total loans	$ 2,190,611	$ 2,398,349

The above amounts include purchased credit impaired loans. At December 31, 2012, and June 30, 2012, these loans comprised $897,000 and $930,000 of nonaccrual loans, respectively.

Included in certain loan categories in the impaired loans are troubled debt restructurings (TDRs), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities, and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs, for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

During the three- and six-month periods ended December 31, 2012 and 2011, certain loans were classified as TDRs. They are shown, segregated by class, in the table below:

	For the three-month periods ended			
	December 31, 2012		December 31, 2011	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Residential real estate	-	$-	-	$-
Construction real estate	-	-	-	-
Commercial real estate	1	330,748	1	22,000
Consumer loans	-	-	-	-
Commercial loans	1	73,369		