

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from _____ to _____

Commission file number 0-23406

Southern Missouri Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Missouri

(State or jurisdiction of incorporation)

43-1665523

(IRS employer id. no.)

2991 Oak Grove Road Poplar Bluff, MO

(Address of principal executive offices)

63901

(Zip code)

(573) 778-1800

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	SMBC	NASDAQ Global Market

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

Yes No

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 May 9, 2024
Common Stock, Par Value \$.01	11,355,266 shares

[Table of Contents](#)

**SOUTHERN MISSOURI BANCORP, INC.
FORM 10-Q**

INDEX

	PAGE NO.
PART I. <u>Financial Information</u>	
<u>Item 1.</u> <u>Condensed Consolidated Financial Statements</u>	3
- <u>Condensed Consolidated Balance Sheets</u>	3
- <u>Condensed Consolidated Statements of Income</u>	4
- <u>Condensed Consolidated Statements of Comprehensive Income</u>	5
- <u>Condensed Consolidated Statements of Stockholders' Equity</u>	6
- <u>Condensed Consolidated Statements of Cash Flows</u>	7
- <u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	57
<u>Item 4.</u> <u>Controls and Procedures</u>	60
PART II. <u>OTHER INFORMATION</u>	61
<u>Item 1.</u> <u>Legal Proceedings</u>	61
<u>Item 1a.</u> <u>Risk Factors</u>	61
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
<u>Item 3.</u> <u>Defaults upon Senior Securities</u>	61
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	61
<u>Item 5.</u> <u>Other Information</u>	61
<u>Item 6.</u> <u>Exhibits</u>	62
- <u>Signature Page</u>	64

PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2024 AND JUNE 30, 2023

	<u>March 31, 2024</u>	June 30, 2023
	(dollars in thousands)	
Assets		
Cash and cash equivalents	\$ 168,273	\$ 53,979
Interest-bearing time deposits	490	1,242
Available for sale securities	433,689	417,554
Stock in FHLB of Des Moines	8,667	11,540
Stock in Federal Reserve Bank of St. Louis	9,067	9,061
Loans receivable, net of ACL of \$51,336 and \$47,820 at March 31, 2024 and June 30, 2023, respectively	3,719,858	3,571,078
Accrued interest receivable	21,807	18,871
Premises and equipment, net	95,801	92,397
Bank owned life insurance – cash surrender value	73,101	71,684
Goodwill	50,727	50,773
Other intangible assets, net	27,322	30,472
Prepaid expenses and other assets	38,190	31,560
Total assets	<u>\$ 4,646,992</u>	<u>\$ 4,360,211</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 3,995,510	\$ 3,725,540
Advances from FHLB	102,043	133,514
Accounts payable and other liabilities	34,747	27,271
Accrued interest payable	11,965	4,723
Subordinated debt	23,143	23,105
Total liabilities	<u>4,167,408</u>	<u>3,914,153</u>
Common stock, \$.01 par value; 25,000,000 shares authorized; 11,959,157 and 11,919,087 shares issued at March 31, 2024 and June 30, 2023, respectively	120	119
Additional paid-in capital	219,591	218,260
Retained earnings	300,227	270,720
Treasury stock of 593,063 and 588,625 shares at March 31, 2024 and June 30, 2023, respectively, at cost	(21,303)	(21,116)
Accumulated other comprehensive loss	(19,051)	(21,925)
Total stockholders' equity	<u>479,584</u>	<u>446,058</u>
Total liabilities and stockholders' equity	<u>\$ 4,646,992</u>	<u>\$ 4,360,211</u>

See Notes to Condensed Consolidated Financial Statements

[Table of Contents](#)

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND NINE- MONTH PERIODS ENDED MARCH 31, 2024 AND 2023 (Unaudited)

(dollars in thousands except per share data)	Three months ended March 31,		Nine months ended March 31,	
	2024	2023	2024	2023
Interest Income				
Loans	\$ 55,952	\$ 43,115	\$ 164,063	\$ 113,288
Investment securities	1,729	2,076	5,217	3,519
Mortgage-backed securities	3,757	1,652	10,614	3,654
Other interest-earning assets	2,587	1,443	3,813	1,672
Total interest income	<u>64,025</u>	<u>48,286</u>	<u>183,707</u>	<u>122,133</u>
Interest Expense				
Deposits	28,021	13,705	74,032	28,061
Securities sold under agreements to repurchase	—	213	—	213
Advances from FHLB	1,060	206	3,978	2,300
Subordinated debt	435	395	1,309	1,033
Total interest expense	<u>29,516</u>	<u>14,519</u>	<u>79,319</u>	<u>31,607</u>
Net Interest Income	34,509	33,767	104,388	90,526
Provision for Credit Losses	900	10,072	2,700	16,266
Net Interest Income After Provision for Credit Losses	33,609	23,695	101,688	74,260
Noninterest Income				
Deposit account charges and related fees	1,847	2,089	5,421	5,578
Bank card interchange income	1,301	1,374	3,974	3,471
Loan late charges	150	161	409	402
Loan servicing fees	267	265	783	834
Other loan fees	757	465	1,758	1,959
Net realized gains on sale of loans	99	132	616	550
Net realized losses on sale of AFS securities	(807)	—	(1,489)	—
Earnings on bank owned life insurance	483	368	1,413	1,006
Insurance brokerage commissions	312	349	886	899
Wealth management	866	463	2,329	1,241
Other income	309	618	977	1,314
Total noninterest income	<u>5,584</u>	<u>6,284</u>	<u>17,077</u>	<u>17,254</u>
Noninterest Expense				
Compensation and benefits	13,750	14,188	39,360	33,733
Occupancy and equipment, net	3,623	3,024	10,615	7,914
Data processing expense	2,349	2,505	7,039	5,380
Telecommunications expense	464	449	1,460	1,127
Deposit insurance premiums	677	231	1,824	710
Legal and professional fees	412	2,324	1,215	3,587
Advertising	622	409	1,479	1,074
Postage and office supplies	344	331	929	779
Intangibles amortization	1,018	812	3,053	1,615
Foreclosed property expenses	60	280	96	275
Other operating expense	1,730	2,439	5,546	5,356
Total noninterest expense	<u>25,049</u>	<u>26,992</u>	<u>72,616</u>	<u>61,550</u>
	<u>14,144</u>	<u>2,987</u>	<u>46,149</u>	<u>29,964</u>
Income Before Income Taxes				
Income Taxes	2,837	578	9,497	6,288
Net Income	\$ 11,307	\$ 2,409	\$ 36,652	\$ 23,676
Basic earnings per share	\$ 1.00	\$ 0.22	\$ 3.23	\$ 2.42
Diluted earnings per share	\$ 0.99	\$ 0.22	\$ 3.22	\$ 2.41
Dividends paid	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE- AND NINE- MONTH PERIODS ENDED MARCH 31, 2024 AND 2023 (Unaudited)

(dollars in thousands)	Three months ended March 31,		Nine months ended March 31,	
	2024	2023	2024	2023
Net Income	\$ 11,307	\$ 2,409	\$ 36,652	\$ 23,676
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available-for-sale	(1,130)	901	2,195	(756)
Less: reclassification adjustment for realized losses included in net income	(807)	—	(1,489)	—
Tax (expense) benefit	72	(198)	(810)	166
Total other comprehensive income (loss)	<u>(251)</u>	<u>703</u>	<u>2,874</u>	<u>(590)</u>
Comprehensive Income	<u><u>\$ 11,056</u></u>	<u><u>\$ 3,112</u></u>	<u><u>\$ 39,526</u></u>	<u><u>\$ 23,086</u></u>

See Notes to Condensed Consolidated Financial Statements

[Table of Contents](#)

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE- AND NINE- MONTH PERIODS ENDED MARCH 31, 2024 AND 2023 (Unaudited)

(dollars in thousands)	For the three- and nine- month period ended March 31, 2024					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE AS OF DECEMBER 31, 2023	\$ 119	\$218,675	\$291,304	\$(21,116)	\$ (18,800)	\$ 470,182
Net Income			11,307			11,307
Change in unrealized loss on available for sale securities					(251)	(251)
Dividends paid on common stock (\$.21 per share)			(2,384)			(2,384)
Stock option expense	84					84
Stock grant expense	657					657
Stock options exercised	175					175
Common stock issued	1					1
Treasury stock purchased			(187)			(187)
BALANCE AS OF MARCH 31, 2024	\$ 120	\$219,591	\$300,227	\$(21,303)	\$ (19,051)	\$ 479,584
BALANCE AS OF JUNE 30, 2023	\$ 119	\$218,260	\$270,720	\$(21,116)	\$ (21,925)	\$ 446,058
Net Income			36,652			36,652
Change in unrealized loss on available for sale securities					2,874	2,874
Dividends paid on common stock (\$.63 per share)			(7,145)			(7,145)
Stock option expense	283					283
Stock grant expense	657					657
Stock options exercised	391					391
Common stock issued	1					1
Treasury stock purchased			(187)			(187)
BALANCE AS OF MARCH 31, 2024	\$ 120	\$219,591	\$300,227	\$(21,303)	\$ (19,051)	\$ 479,584
(dollars in thousands)	For the three- and nine- month period ended March 31, 2023					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE AS OF DECEMBER 31, 2022	\$ 98	\$119,271	\$257,506	\$(21,116)	\$ (18,780)	\$ 336,979
Net Income			2,409			2,409
Change in unrealized loss on available for sale securities					703	703
Dividends paid on common stock (\$.21 per share)			(2,376)			(2,376)
Stock option expense	68					68
Stock grant expense	584					584
Common stock issued	21	98,259				98,280
BALANCE AS OF MARCH 31, 2023	\$ 119	\$218,182	\$257,539	\$(21,116)	\$ (18,077)	\$ 436,647
BALANCE AS OF JUNE 30, 2022	\$ 98	\$119,162	\$240,115	\$(21,116)	\$ (17,487)	\$ 320,772
Net Income			23,676			23,676
Change in unrealized loss on available for sale securities					(590)	(590)
Dividends paid on common stock (\$.63 per share)			(6,252)			(6,252)
Stock option expense	177					177
Stock grant expense	584					584
Common stock issued	21	98,259				98,280
BALANCE AS OF MARCH 31, 2023	\$ 119	\$218,182	\$257,539	\$(21,116)	\$ (18,077)	\$ 436,647

See Notes to Condensed Consolidated Financial Statements

[Table of Contents](#)

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED MARCH 31, 2024 AND 2023 (Unaudited)

(dollars in thousands)	Nine months ended March 31,	
	2024	2023
Cash Flows From Operating Activities:		
Net Income	\$ 36,652	\$ 23,676
Items not requiring (providing) cash:		
Depreciation	4,452	3,429
Gain on disposal of fixed assets	(13)	(317)
Stock option and stock grant expense	940	761
Loss on sale/write-down of REO	55	140
Amortization of intangible assets	3,053	1,615
Accretion of purchase accounting adjustments	(4,277)	(2,166)
Increase in cash surrender value of bank owned life insurance (BOLI)	(1,413)	(1,006)
Provision for credit losses	2,700	16,266
Loss realized on sale of AFS securities	1,489	—
Net (accretion) amortization of premiums and discounts on securities	(500)	646
Originations of loans held for sale	(16,263)	(14,673)
Proceeds from sales of loans held for sale	16,021	14,723
Gain on sales of loans held for sale	(616)	(550)
Changes in:		
Accrued interest receivable	(2,936)	(2,901)
Prepaid expenses and other assets	(848)	(815)
Accounts payable and other liabilities	8,889	136
Deferred income taxes	420	(1,981)
Accrued interest payable	7,242	2,383
Net cash provided by operating activities	55,047	39,366
Cash flows from investing activities:		
Net increase in loans	(149,660)	(311,095)
Net change in interest-bearing deposits	744	1,244
Proceeds from maturities of available for sale securities	28,032	27,987
Proceeds from sales of available for sale securities	29,375	136,714
Net redemptions (purchases) of Federal Home Loan Bank stock	2,873	(788)
Net purchases of Federal Reserve Bank of St. Louis stock	(6)	(2,701)
Purchases of available-for-sale securities	(70,848)	(131,827)
Purchases of long-term investment	(160)	(165)
Purchases of premises and equipment	(7,125)	(4,225)
Net cash received in acquisition	—	210,704
Investments in state & federal tax credits	(6,494)	(4,423)
Proceeds from sale of fixed assets	16	3,464
Proceeds from sale of foreclosed assets	992	1,122
Proceeds from BOLI claim	—	270
Net cash used in investing activities	(172,261)	(73,719)
Cash flows from financing activities:		
Net decrease in demand deposits and savings accounts	(10,304)	(104,729)
Net increase in certificates of deposits	280,292	193,749
Net decrease in securities sold under agreements to repurchase	—	(27,629)
Proceeds from Federal Home Loan Bank advances	271,000	1,579,630
Repayments of Federal Home Loan Bank advances	(302,539)	(1,572,668)
Exercise of stock options	391	—
Purchase of treasury stock	(187)	—
Dividends paid on common stock	(7,145)	(6,252)
Net cash provided by financing activities	231,508	62,101
Increase in cash and cash equivalents	114,294	27,748
Cash and cash equivalents at beginning of period	53,979	86,792
Cash and cash equivalents at end of period	\$ 168,273	\$ 114,540
Supplemental disclosures of cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	\$ 1,742	\$ 1,073
Conversion of loans to repossessed assets	191	58
Right of use assets obtained in exchange for lease obligations: Operating Leases	734	82

[Table of Contents](#)

The Company purchased all of the Citizens Bancshares Company on January 20, 2023.

In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$	—	\$	1,019,722
Less: common stock issued		—		98,280
Cash paid		—		34,889
Liabilities assumed		—		886,553

Cash paid during the period for:

Interest (net of interest credited)	\$	5,984	\$	3,717
Income taxes		1,882		4,062

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 condensed consolidated balance sheet of the Company as of June 30, 2023, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three- and nine- month periods ended March 31, 2024, 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, 2023 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 subsidiaries. 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. SB Real Estate Investments, LLC is a wholly-owned subsidiary of the Bank formed to hold Southern Bank Real Estate Investments, LLC. Southern Bank Real Estate Investments, LLC is a real estate investment trust (REIT) which is controlled by SB Real Estate Investments, LLC, and has other preferred shareholders in order to meet the requirements to be a REIT. At March 31, 2024, assets of the REIT were approximately \$1.4 billion, and consisted primarily of real estate loan participations acquired from the Bank.

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 the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation. The condensed consolidated 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 subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of consolidated 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 credit losses, estimated fair values of purchased loans, and certain other assumptions and judgmental factors relating to investment securities.

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 \$112.5 million and \$3.8 million at March 31, 2024 and June 30, 2023, respectively. The deposits are held in various commercial banks with a total of \$1.8 million and \$1.3 million exceeding the FDIC's deposit insurance limits at March 31, 2024 and June 30, 2023, respectively, as well as at the Federal Reserve and the Federal Home Loan Banks of Des Moines and Chicago.

Interest-bearing Time Deposits. Interest bearing time deposits in banks mature within three years and are carried at cost.

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

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

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

For AFS securities with fair value less than amortized cost 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 loss. 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, and is recorded to the Allowance for Credit Losses ("ACL"), by a charge to provision for credit losses. Accrued interest receivable is excluded from the estimate of credit losses. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired AFS security, or, if it is more likely than not the Company will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount would be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in this situation.

The Company evaluates impaired AFS securities at the individual level on a quarterly basis, and considers factors including, but not limited to: the extent to which the fair value of the security is less than the amortized cost basis; adverse conditions specifically related to the security, an industry, or geographic area; the payment structure of the security and likelihood of the issuer to be able to make payments that may increase in the future; failure of the issuer to make scheduled interest or principal payments; any changes to the rating of the security by a rating agency; and the ability and intent to hold the security until maturity. A qualitative determination as to whether any portion of the impairment is attributable to credit risk is acceptable. There were no credit related factors underlying unrealized losses on AFS securities at March 31, 2024, or June 30, 2023.

Changes in the ACL are recorded as expense. Losses are charged against the ACL when management believes the uncollectability of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

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 of the Bank based upon a predetermined formula and is carried at cost.

Loans. Loans are generally stated at unpaid principal balances, less the ACL, any net deferred loan origination fees, and unamortized premiums or discounts on purchased loans.

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 collectability 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 ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans, and is established through a provision for credit losses ("PCL") charged to current earnings. The ACL is increased by the provision for credit 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 flows (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.

Management estimates the ACL using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Adjustments may be made to historical loss information for differences identified in current loan-specific risk characteristics, such as differences in underwriting standards or terms; lending review systems; experience, ability, or depth of lending management and staff; portfolio growth and mix; delinquency levels and trends; as well as for changes in environmental conditions, such as changes in economic activity or employment, agricultural economic conditions, property values, or other relevant factors. The Company generally incorporates a reasonable and supportable forecast period of four quarters, and a four-quarter, straight-line reversion period to return to long-term historical averages.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. For loans that do not share general risk characteristics with the collectively evaluated pools, the Company estimates credit losses on an individual loan basis, and these loans are excluded from the collectively evaluated pools. An ACL for an individually evaluated loan is recorded when the amortized cost basis of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value, less estimated costs to sell, of the collateral for certain collateral dependent loans. For the collectively evaluated pools, the Company segments the loan portfolio primarily by loan purpose and collateral into 24 pools, which are homogeneous groups of loans that possess similar loss potential characteristics. The Company primarily utilizes the discounted cash flow ("DCF") methodology for measurement of the required ACL. For a limited number of pools with a relatively small balance of unpaid principal, the Company utilizes the remaining life method. The DCF model implements probability of default ("PD") and loss given default ("LGD") calculations at the instrument level. PD and LGD are determined based on statistical analysis and correlation of historical losses with various economic factors over time. In general, the Company's losses have not correlated well with economic factors, and the Company has utilized peer data where more appropriate. The Company defines a default to include an event of charge off, an adverse (substandard or worse) internal credit rating, becoming delinquent 90 days or more, or being

placed on nonaccrual status. A PD/LGD estimate is applied to a projected model of the loan's cashflow, including principal and interest payments, with consideration for prepayment speeds, principal curtailments, and recovery lag.

Loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated ("PCD") loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial ACL is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial ACL is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to non-credit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the 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.

Off-Balance Sheet Credit Exposures. Off-balance sheet credit instruments include commitments to make loans, and commercial letters of credit, issued to meet customer financing needs. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The ACL on off-balance sheet credit exposures is estimated by loan pool on a quarterly basis under the current CECL model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur and is included in other liabilities on the Company's consolidated balance sheets. The Company records an ACL on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable.

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, establishing a new cost basis. Any costs for development and improvement of the property that are warranted 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 seven to forty years for premises, three to seven years for equipment, and three years for software.

Bank Owned Life Insurance. Bank owned life insurance policies are reflected in the condensed consolidated balance sheets at the estimated cash surrender value. Changes in the cash surrender value of these policies, as well as a portion of the insurance proceeds received, are recorded in noninterest income in the condensed consolidated statements of income.

Goodwill. The Company's goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. As of June 30, 2023, there was no impairment indicated, based on a qualitative assessment of goodwill, which considered: the market value of the Company's common stock; concentrations of credit; profitability; nonperforming assets; capital levels; and results of recent regulatory examinations. There was no impairment of goodwill at March 31, 2024.

Intangible Assets. The Company's intangible assets at March 31, 2024 included gross core deposit intangibles of \$ 39.1 million with \$16.9 million accumulated amortization, gross other identifiable intangibles of \$ 6.4 million with accumulated amortization of \$4.1 million, and mortgage and SBA servicing rights of \$ 2.8 million. At June 30, 2023, the Company's intangible assets included gross core deposit intangibles of \$39.1 million with \$14.0 million accumulated amortization, gross other identifiable intangibles of \$6.4 million with accumulated amortization of \$ 3.9 million, and mortgage and SBA servicing rights of \$2.9 million. The Company's core deposit and other intangible assets are being amortized using the straight line method, in accordance with ASC 350, over periods ranging from five to ten years, with amortization expense expected to be approximately \$1.0 million in the remainder of fiscal 2024, \$ 3.5 million in fiscal 2025, \$3.0 million in fiscal 2026, \$2.7 million in fiscal 2027, \$2.7 million in fiscal 2028, and \$ 11.5 million thereafter. As of June 30, 2023, there was no impairment indicated, and there was no impairment of other intangible assets at March 31, 2024.

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, if any, on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries, the Bank and SB Real Estate Investments, LLC, with a tax year ended June 30. Southern Bank Real Estate Investments, LLC files a separate REIT return for federal tax purposes, and also files state income tax returns, with a tax year ended December 31.

Incentive Plans. The Company accounts for its Equity Incentive Plan (EIP), and Omnibus Incentive Plan (OIP) 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. The difference between the grant-date fair value and the fair value on the date the shares are considered earned represents a tax benefit to the Company that is recorded as an adjustment to income tax expense.

Non-Employee Directors' Retirement. The Bank entered into directors' retirement agreements beginning in April 1994 for non-employee directors and continued to do so for new non-employee directors joining the Bank's board through December 2014. These directors' retirement agreements provide that each participating 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. Benefits shall not be payable to anyone other than the beneficiary, and shall terminate on the death of the beneficiary.

Stock Options. Compensation cost is measured based on the grant-date fair value of the equity instruments issued, and recognized over the vesting period during which an employee provides service in exchange for the award.

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 restricted stock grants) outstanding during each period.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized depreciation on available-for-sale securities, unrealized 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.

Transfers Between Fair Value Hierarchy Levels. Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Wealth Management Assets and Fees. Assets managed in fiduciary or investment management accounts by the Company are not included in the consolidated balance sheets since such items are not assets of the Company or its subsidiaries. Fees from fiduciary or investment management activities are recorded on a cash basis over the period in which the service is provided. Fees are generally a function of the market value of assets managed and administered, the volume of transactions, and fees for other services rendered, as set forth in the agreement between the customer and the Company. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on asset valuations and transaction volumes. Any out-of-pocket expenses or services not typically covered by the fee schedule for fiduciary activities are charged directly to the account on a gross basis as revenue is incurred. The Southern Wealth Management division, which is a division of the Bank, held fiduciary assets totaling \$104.8 million and \$102.0 million as of March 31, 2024 and June 30, 2023, respectively, and investment management assets totaling \$480.0 million and \$464.2 million as of March 31, 2024 and June 30, 2023, respectively.

New Accounting Pronouncements:

In January 2021, the Financial Accounting Standards Board ("FASB"), published ASU 2021-01, "Reference Rate Reform (Topic 848)". ASU 2021-01 clarified that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amended the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply the amendments in this update on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. If an entity elects to apply any of the amendments in this update for an eligible hedging relationship, any adjustments as a result of those elections must be reflected as of the date the entity applies the election. Originally, the amendments in this update did not apply to contract modifications made after December 31,

2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022 except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2022). With the issuance of ASU 2022-06 Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, the sunset date for adoption of ASU 2021-01 was extended from December 31, 2022 to December 31, 2024. The Company is evaluating the impact of this ASU but does not expect it to have a material impact on the Company's consolidated financial statements.

In March 2023, the FASB issued ASU 2023-02, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." This ASU permits reporting entities to elect to account for tax equity investments, regardless of the tax credit program for which the income tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense. A reporting entity makes an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. This ASU also requires specific disclosures of investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. The ASU is effective for fiscal years beginning after December 15, 2023. The Company does not expect adoption of ASU 2023-02 to have a material impact on its consolidated financial statements.

On July 1, 2023, the Company adopted ASU No. 2022-02, "Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 eliminates the accounting guidance for TDRs in ASC 310-40, "Receivables – Troubled Debt Restructurings by Creditors" for entities that have adopted the CECL model introduced by ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2022-02 also requires that public business entities disclose current-period gross charge offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments – Credit Losses – Measured at Amortized Cost." The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes - Improvements to Income Tax Disclosures (Topic 740)". ASU 2023-09 was issued to address requests by investors and creditors for enhanced transparency and decision usefulness of income tax disclosures. Public business entities (PBEs) would be required to prepare an annual detailed, tabular tax rate reconciliation. All other entities would be required to provide qualitative disclosure on specific categories and individual jurisdictions that result in significant differences between the statutory and effective tax rates. All entities would be required to annually disclose taxes paid disaggregated by federal, state, and foreign taxes, as well as disaggregating taxes by individual jurisdiction if taxes paid exceed 5% of total income taxes paid. The ASU is effective for PBEs for fiscal years beginning after December 15, 2024. The Company does not expect adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

[Table of Contents](#)

Note 3: Available for Sale Securities

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

(dollars in thousands)	March 31, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Debt and equity securities:					
Obligations of states and political subdivisions	\$ 30,008	\$ 25	\$ (1,925)	\$ —	\$ 28,108
Corporate obligations	35,826	126	(2,139)	—	33,813
Asset backed securities	63,561	1,514	(280)	—	64,795
Other securities	5,657	21	(70)	—	5,608
Total debt and equity securities	135,052	1,686	(4,414)	—	132,324
Mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs):					
Residential MBS issued by governmental sponsored enterprises (GSEs)	107,807	645	(7,471)	—	100,981
Commercial MBS issued by GSEs	65,311	150	(6,404)	—	59,057
CMOs issued by GSEs	149,899	58	(8,630)	—	141,327
Total MBS and CMOs	323,017	853	(22,505)	—	301,365
Total AFS securities	\$ 458,069	\$ 2,539	\$ (26,919)	\$ —	\$ 433,689
(dollars in thousands)	June 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
Debt and equity securities:					
Obligations of states and political subdivisions	\$ 45,285	\$ 20	\$ (2,737)	\$ —	\$ 42,568
Corporate obligations	35,700	19	(3,181)	—	32,538
Asset backed securities	67,897	1,274	(545)	—	68,626
Other securities	3,587	39	(56)	—	3,570
Total debt and equity securities	152,469	1,352	(6,519)	—	147,302
Mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs):					
Residential MBS issued by governmental sponsored enterprises (GSEs)	97,612	122	(7,610)	—	90,124
Commercial MBS issued by GSEs	60,333	11	(6,959)	—	53,385
CMOs issued by GSEs	135,202	9	(8,468)	—	126,743
Total MBS and CMOs	293,147	142	(23,037)	—	270,252
Total AFS securities	\$ 445,616	\$ 1,494	\$ (29,556)	\$ —	\$ 417,554

The amortized cost and estimated fair value of investment and MBS, 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.

[Table of Contents](#)

(dollars in thousands)	March 31, 2024	
	Amortized Cost	Estimated Fair Value
Within one year	\$ 1,455	\$ 1,438
After one year but less than five years	25,465	24,522
After five years but less than ten years	59,624	57,701
After ten years	48,508	48,663
Total investment securities	135,052	132,324
MBS and CMOs	323,017	301,365
Total AFS securities	<u>\$ 458,069</u>	<u>\$ 433,689</u>

The carrying value of investment and MBS pledged as collateral to secure public deposits amounted to \$ 268.0 million and \$253.9 million at March 31, 2024 and June 30, 2023, respectively. The securities pledged consist of marketable securities, including \$137.3 million and \$129.2 million of MBS, \$107.5 million and \$94.8 million of CMOs, \$18.7 million and \$26.5 million of State and Political Subdivisions Obligations, and \$ 4.5 million and \$3.4 million of Other Securities at March 31, 2024 and June 30, 2023, respectively.

The following tables show the Company's 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 for which an ACL has not been recorded at March 31, 2024 and June 30, 2023:

(dollars in thousands)	March 31, 2024					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	\$ 1,831	\$ 8	\$ 21,855	\$ 1,917	\$ 23,686	\$ 1,925
Corporate obligations	—	—	26,908	2,139	26,908	2,139
Asset backed securities	—	—	10,464	280	10,464	280
Other securities	4,709	24	284	46	4,993	70
MBS and CMOs	72,766	831	188,120	21,674	260,886	22,505
Total AFS securities	<u>\$ 79,306</u>	<u>\$ 863</u>	<u>\$ 247,631</u>	<u>\$ 26,056</u>	<u>\$ 326,937</u>	<u>\$ 26,919</u>

(dollars in thousands)	June 30, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	\$ 11,574	\$ 184	\$ 26,763	\$ 2,553	\$ 38,337	\$ 2,737
Corporate obligations	14,709	1,074	13,821	2,107	28,530	3,181
Asset backed securities	22,628	263	698	282	23,326	545
Other securities	1,970	11	350	45	2,320	56
MBS and CMOs	87,354	1,525	145,673	21,512	233,027	23,037
Total AFS securities	<u>\$ 138,235</u>	<u>\$ 3,057</u>	<u>\$ 187,305</u>	<u>\$ 26,499</u>	<u>\$ 325,540</u>	<u>\$ 29,556</u>

Obligations of state and political subdivisions . The unrealized losses on the Company's investments in obligations of state and political subdivisions include five individual securities which have been in an unrealized loss position for less than 12 months and 45 individual securities which have been in an unrealized loss position for more than 12 months. The securities are performing and are of high credit quality. The unrealized losses were caused by increases in market interest rates since purchase or acquisition. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost basis, which may be maturity, the Company has not recorded an ACL on these securities.

[Table of Contents](#)

Corporate and other Obligations. The unrealized losses on the Company's investments in corporate obligations include one security which has been in an unrealized loss position for less than 12 months and 19 individual securities which have been in an unrealized loss position for more than 12 months. The securities are performing and are of high credit quality. The unrealized losses were caused by increases in market interest rates since purchase or acquisition. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost basis, which may be maturity, the Company has not recorded an ACL on these securities.

Asset-Backed securities. The unrealized losses on the Company's investments in asset-backed securities include no individual securities which have been in an unrealized loss position for less than 12 months and six individual securities which have been in an unrealized loss position for more than 12 months. The securities are performing and are of high credit quality. The unrealized loss was caused by variations in market interest rates since purchase or acquisition. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost basis, which may be maturity, the Company has not recorded an ACL on these securities.

MBS and CMOs. The unrealized losses on the Company's investments in MBS and CMOs include 21 individual securities which have been in an unrealized loss position for less than 12 months, and 113 individual securities which have been in an unrealized loss position for 12 months or more. The securities are performing and are of high credit quality. The unrealized losses were caused by increases in market interest rates since purchase or acquisition. Because the Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to recovery of their amortized cost basis, which may be maturity, the Company has not recorded an ACL on these securities.

The Company does not believe that any individual unrealized loss as of March 31, 2024, is the result of a credit loss. However, the Company could be required to recognize an ACL in future periods with respect to its available for sale investment securities portfolio.

Credit losses recognized on investments. There were no credit losses recognized in income and other losses or recorded in other comprehensive loss for the three- and nine- month periods ended March 31, 2024 and 2023.

Note 4: Loans and Allowance for Credit Losses

Classes of loans are summarized as follows:

	(dollars in thousands)	March 31, 2024	June 30, 2023
Real Estate Loans:			
Residential	\$ 1,200,723	\$ 1,133,417	
Construction	432,030	550,052	
Commercial	1,608,935	1,562,379	
Consumer loans	140,123	133,515	
Commercial loans	616,603	599,030	
	3,998,414	3,978,393	
Loans in process	(226,969)	(359,196)	
Deferred loan fees, net	(251)	(299)	
Allowance for credit losses	(51,336)	(47,820)	
Total loans	\$ 3,719,858	\$ 3,571,078	

The Company's lending activities consist of originating 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. At March 31, 2024, the Bank had purchased participations in 69 loans totaling \$174.6 million, as compared to 86 loans totaling \$155.6 million at June 30, 2023.

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 lending area. General risks related to one- to four-family residential lending include stability of borrower income and collateral values.

The Company also originates loans secured by multi-family residential properties that are often located outside the Company's primary lending area but made to borrowers who operate within our primary market area. The majority of the multi-family residential loans that have been originated by the Company are amortized over periods generally up to 25 years, with balloon maturities typically up to ten years. Both fixed and adjustable interest rates are offered and it is typical for the Company to include an interest rate "floor" and "ceiling" 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. General risks related to multi-family residential lending include rental demand and supply, rental rates, and vacancies, as well as collateral values and borrower leverage.

Commercial Real Estate Lending. The Company actively originates loans secured by owner- and non-owner-occupied commercial real estate including farmland, single- and multi-tenant retail properties, restaurants, hotels, land (improved and unimproved), nursing homes and other healthcare facilities, warehouses and distribution centers, convenience stores, automobile dealerships and other automotive-related services, and other businesses. These properties are typically owned and operated by borrowers headquartered within the Company's primary lending area, however, the property may be located outside our primary lending area. Risks to owner-occupied commercial real estate lending generally include the continued profitable operation of the borrower's enterprise, as well as general collateral values, and may be heightened by unique, specific uses of the property serving as collateral. Non-owner-occupied commercial real estate lending risks include tenant demand and performance, lease rates, and vacancies, as well as collateral values and borrower leverage. These factors may be influenced by general economic conditions in the region, or in the United States generally. Risks to lending on farmland include unique factors such as commodity prices, yields, input costs, and weather, as well as farmland values.

Most commercial real estate loans originated by the Company generally are based on amortization schedules of up to 25 years with monthly principal and interest payments. Generally, the interest rate received on these loans is fixed for a maturity of up to ten 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 seven 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.

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 to finance the construction of owner-occupied residential real estate, or to finance speculative construction of 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, with single-family residential construction loans having maturities ranging from six to twelve months, while multi-family or commercial construction loans typically mature in 12 to 36 months. Once construction is completed, construction loans may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally up to 25 years on commercial real estate. Construction and development lending risks generally include successful timely and on-budget completion of the project, followed by the sale of the property in the case of land development or non-owner-occupied real estate, or the long-term occupancy of the property by the builder in the case of owner-occupied construction. Changes in real estate values or other economic conditions may impact the ability of a borrower to sell property developed for that purpose.

While the Company typically utilizes relatively short maturity periods 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 12 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 performs interim inspections which further provide the Company an opportunity to assess risk. At March 31, 2024, construction loans outstanding included 41 loans, totaling \$18.0 million, for which a modification had been agreed to. At June 30, 2023, construction loans outstanding included 53 loans, totaling \$33.4 million, for which a modification had been agreed to. In general, these modifications were solely for the purpose of extending the maturity date due to conditions described above, pursuant to the Company's normal underwriting and monitoring procedures. As these modifications were not executed due to financial difficulty on the part of the borrower, they were not accounted for as modifications to borrowers experiencing financial difficulty.

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 lending area. Usually, consumer loans are originated with fixed rates for terms of up to 66 months, 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 90% 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. Risks related to HELOC lending generally include the stability of borrower income and collateral values.

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 66 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. Risks to automobile and other consumer lending generally include the stability of borrower income and borrower willingness to repay.

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. Commercial lending risk is primarily driven by the borrower's successful generation of cash flow from their business enterprise sufficient to service debt, and may be influenced by factors specific to the borrower and industry, or by general economic conditions in the region or in the United States generally. Agricultural production or equipment lending includes unique additional risk factors such as commodity prices, yields, input costs, and weather, as well as farm equipment values.

Allowance for Credit Losses. The PCL for the three- and nine- month periods ended March 31, 2024, was \$900,000 and \$2.7 million, respectively, compared to \$10.1 million and \$16.3 million in the same periods of the prior fiscal year. The PCL for the nine- month period ended March 31, 2024 was the result of a \$4.9 million provision attributable to the ACL for loan balances outstanding, partially offset by a recovery of \$2.2 million in provision attributable to the allowance for off-balance sheet credit exposures. In the same period of the prior fiscal year, the ACL required for PCD loans acquired in the Citizens merger was \$1.1 million, and was funded through purchase accounting adjustments, while the ACL required for non-PCD loans acquired in the Citizens merger was \$5.2 million, and was funded through a charge to PCL.

Additionally, the allowance for off-balance sheet credit exposures in the prior period was increased by \$1.8 million due to the Citizens merger and funded through a charge to PCL. Exclusive of the charges required as a result of the Citizens merger, the Company would have recorded a PCL of approximately \$3.1 million and \$9.3 million for the three- and nine-month periods ended March 31, 2023, respectively, of which \$2.0 million and \$6.6 million, respectively, were attributable to the required ACL for loan balances outstanding, while \$1.1 million and \$2.7 million, respectively, were attributable to the required allowance for off-balance sheet credit exposures, for the three- and nine-month periods. The Company's assessment of the economic outlook at March 31, 2024, was slightly improved as compared to the assessment as of June 30, 2023. Qualitative adjustments in the Company's ACL model were slightly decreased based on a reduction in the pace of growth in the Company's loan portfolio. The Company modestly increased ACL adjustments to some individually analyzed classified loans that have been slow to recover from the COVID-19 pandemic and other

smaller balance loans. As a percentage of average loans outstanding, the Company recorded net charge offs of five basis points (annualized) for the first nine months of fiscal 2024 compared to two basis points in the same period of the prior fiscal year. Decreased provisioning for off-balance sheet credit exposures is attributable primarily to changes in the level of outstanding credit commitments. The Company has estimated its expected credit losses as of March 31, 2024, under ASC 326-20, and management believes the ACL as of that date is adequate based on that estimate. Specifically, management considered the following primary qualitative items in its estimate of the ACL:

- economic conditions and projections as provided by Moody's Analytics, including baseline and downside scenarios, were utilized in the Company's estimate at March 31, 2024. Economic factors considered in the projections included national and state levels of unemployment, and national and state rates of inflation-adjusted growth in the gross domestic product. Economic conditions are considered to be a moderate and stable risk factor, relative to June 30, 2023;
- the pace of growth of the Company's loan portfolio, exclusive of acquisitions or government guaranteed loans, relative to overall economic growth. This measure is considered to be a moderate and slightly decreasing risk factor, relative to June 30, 2023;
- levels and trends for loan delinquencies nationally and in the region. This is considered to be a low and stable risk factor, relative to June 30, 2023;

PCD Loans. In connection with the acquisition of Citizens Bancshares, Co. ("Citizens") on January 20, 2023, and Fortune Financial Corporation ("Fortune") on February 25, 2022, the Company acquired loans both with and without evidence of credit quality deterioration since origination. Acquired loans are recorded at their fair value at the time of acquisition with no carryover from the acquired institution's previously recorded allowance for loan and lease losses. Acquired loans are accounted for under ASC 326, Financial Instruments – Credit Losses.

The fair value of acquired loans recorded at the time of acquisition is based upon several factors, including the timing and payment of expected cash flows, as adjusted for estimated credit losses and prepayments, and then discounting these cash flows using comparable market rates. The resulting fair value adjustment is recorded in the form of a premium or discount to the unpaid principal balance of the respective loans. As it relates to acquired loans that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, the net premium or net discount is adjusted to reflect the Company's allowance for credit losses recorded for PCD loans at the time of acquisition, and the remaining fair value adjustment is accreted or amortized into interest income over the remaining life of the respective loans. As it relates to loans not classified as PCD ("non-PCD") loans, the credit loss and yield components of their fair value adjustment are aggregated, and the resulting net premium or net discount is accreted or amortized into interest income over the remaining life of the respective loans. The Company records an ACL for non-PCD loans at the time of acquisition through provision expense, and therefore, no further adjustments are made to the net premium or net discount for non-PCD loans.

Loans that the Company acquired from Citizens and Fortune, that at the time of acquisition had more-than-insignificant deterioration of credit quality since origination, are classified as PCD loans and presented in the tables below at acquisition carrying value:

	(dollars in thousands)	January 20, 2023
PCD Loans – Citizens		
Purchase price of PCD loans at acquisition	\$ 27,481	
Allowance for credit losses at acquisition	(1,121)	
Fair value of PCD loans at acquisition	<u>\$ 26,360</u>	

[Table of Contents](#)

(dollars in thousands)	February 25, 2022
PCD Loans – Fortune	
Purchase price of PCD loans at acquisition	\$ 15,055
Allowance for credit losses at acquisition	(120)
Fair value of PCD loans at acquisition	<u>\$ 14,935</u>

The following tables present the balance in the ACL based on portfolio segment as of March 31, 2024 and 2023, and activity in the ACL for the three- and nine- month periods ended March 31, 2024 and 2023:

At period end and for the nine months ended March 31, 2024						
(dollars in thousands)	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for credit losses:						
Balance, beginning of period	\$ 15,641	\$ 2,664	\$ 22,838	\$ 909	\$ 5,768	\$ 47,820
Provision (benefit) charged to expense	(151)	(28)	4,250	185	594	4,850
Losses charged off	(133)	(289)	(496)	(263)	(249)	(1,430)
Recoveries	—	—	18	69	9	96
Balance, end of period	<u>\$ 15,357</u>	<u>\$ 2,347</u>	<u>\$ 26,610</u>	<u>\$ 900</u>	<u>\$ 6,122</u>	<u>\$ 51,336</u>
At period end and for the three months ended March 31, 2024						
(dollars in thousands)	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for credit losses:						
Balance, beginning of period	\$ 15,096	\$ 2,864	\$ 25,177	\$ 890	\$ 6,057	\$ 50,084
Provision (benefit) charged to expense	262	(517)	1,433	53	127	1,358
Losses charged off	(1)	—	—	(48)	(65)	(114)
Recoveries	—	—	—	5	3	8
Balance, end of period	<u>\$ 15,357</u>	<u>\$ 2,347</u>	<u>\$ 26,610</u>	<u>\$ 900</u>	<u>\$ 6,122</u>	<u>\$ 51,336</u>
At period end and for the nine months ended March 31, 2023						
(dollars in thousands)	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for credit losses:						
Balance, beginning of period	\$ 8,908	\$ 2,220	\$ 16,838	\$ 710	\$ 4,516	\$ 33,192
Initial ACL on PCD loans	96	12	628	164	221	1,121
Provision charged to expense	4,462	1,406	1,324	283	4,325	11,800
Losses charged off	(2)	—	(245)	(189)	(17)	(453)
Recoveries	1	—	—	18	6	25
Balance, end of period	<u>\$ 13,465</u>	<u>\$ 3,638</u>	<u>\$ 18,545</u>	<u>\$ 986</u>	<u>\$ 9,051</u>	<u>\$ 45,685</u>
At period end and for the three months ended March 31, 2023						
(dollars in thousands)	Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for credit losses:						
Balance, beginning of period	\$ 12,499	\$ 2,754	\$ 16,806	\$ 761	\$ 4,663	\$ 37,483
Initial ACL on PCD loans	96	12	628	164	221	1,121
Provision charged to expense	870	872	1,111	165	4,167	7,185
Losses charged off	—	—	—	(113)	—	(113)
Recoveries	—	—	—	9	—	9
Balance, end of period	<u>\$ 13,465</u>	<u>\$ 3,638</u>	<u>\$ 18,545</u>	<u>\$ 986</u>	<u>\$ 9,051</u>	<u>\$ 45,685</u>

[Table of Contents](#)

The following tables present the balance in the allowance for off-balance sheet credit exposure based on portfolio segment as of March 31, 2024 and 2023, and activity in the allowance for the three- and nine- month periods ended March 31, 2024 and 2023:

		At period end and for the nine months ended March 31, 2024					
		Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
(dollars in thousands)							
Allowance for off-balance sheet credit exposure:							
Balance, beginning of period		\$ 71	\$ 4,809	\$ 475	\$ 73	\$ 860	\$ 6,288
Provision (benefit) charged to expense		32	(2,179)	(59)	—	56	(2,150)
Balance, end of period		<u>\$ 103</u>	<u>\$ 2,630</u>	<u>\$ 416</u>	<u>\$ 73</u>	<u>\$ 916</u>	<u>\$ 4,138</u>
		At period end and for the three months ended March 31, 2024					
(dollars in thousands)		Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for off-balance sheet credit exposure:							
Balance, beginning of period		\$ 77	\$ 3,083	\$ 469	\$ 68	\$ 899	\$ 4,596
Provision (benefit) charged to expense		26	(453)	(53)	5	17	(458)
Balance, end of period		<u>\$ 103</u>	<u>\$ 2,630</u>	<u>\$ 416</u>	<u>\$ 73</u>	<u>\$ 916</u>	<u>\$ 4,138</u>
		At period end and for the nine months ended March 31, 2023					
(dollars in thousands)		Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for off-balance sheet credit exposure:							
Balance, beginning of period		\$ 58	\$ 2,178	\$ 421	\$ 61	\$ 640	\$ 3,358
Provision (benefit) charged to expense		47	3,400	(80)	41	1,058	4,466
Balance, end of period		<u>\$ 105</u>	<u>\$ 5,578</u>	<u>\$ 341</u>	<u>\$ 102</u>	<u>\$ 1,698</u>	<u>\$ 7,824</u>
		At period end and for the three months ended March 31, 2023					
(dollars in thousands)		Residential Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for off-balance sheet credit exposure:							
Balance, beginning of period		\$ 70	\$ 3,629	\$ 480	\$ 56	\$ 702	\$ 4,937
Provision (benefit) charged to expense		35	1,949	(139)	46	996	2,887
Balance, end of period		<u>\$ 105</u>	<u>\$ 5,578</u>	<u>\$ 341</u>	<u>\$ 102</u>	<u>\$ 1,698</u>	<u>\$ 7,824</u>

The current fiscal year-to-date gross charge-offs by loan class and year of origination is presented in the following table:

(dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving loans	Total
Real Estate Loans:								
Residential	\$ —	\$ —	\$ —	\$ 97	\$ —	\$ 36	\$ —	\$ 133
Construction	—	100	78	111	—	—	—	289
Commercial	—	496	—	—	—	—	—	496
Consumer loans	7	123	97	29	—	7	—	263
Commercial loans	—	59	180	10	—	—	—	249
Total current-period gross charge-offs	\$ 7	\$ 778	\$ 355	\$ 247	\$ —	\$ 43	\$ —	\$ 1,430

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 Watch, Special Mention, Substandard, or Doubtful. In addition, lending relationships of \$3 million or more, exclusive of any consumer or owner-occupied residential loan, are subject to an

annual credit analysis which is prepared by the loan administration department and presented to a loan committee with appropriate lending authority. A sample of lending relationships in excess of \$1 million (exclusive of single-family residential real estate loans) are subject to an independent loan review annually, 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.

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or probable losses and to assign risk grades. The primary responsibility for this review rests with loan administration personnel. This review is supplemented with periodic examinations of both selected credits and the credit review process by the Company's internal audit function and applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit continues to share similar risk characteristics with collectively evaluated loan pools, or whether credit losses for the loan should be evaluated on an individual loan basis.

[Table of Contents](#)

The following table presents the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and fiscal year of origination as of March 31, 2024. This table includes PCD loans, which are reported according to risk categorization after acquisition based on the Company's standards for such classification:

(dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving loans	Total
Residential Real Estate								
Pass	\$ 144,167	\$ 321,471	\$ 291,486	\$ 240,540	\$ 88,617	\$ 99,045	\$ 11,265	\$ 1,196,591
Watch	772	248	87	543	100	212	—	1,962
Special Mention	—	—	—	—	—	—	—	—
Substandard	30	869	467	190	94	520	—	2,170
Doubtful	—	—	—	—	—	—	—	—
Total Residential Real Estate	\$ 144,969	\$ 322,588	\$ 292,040	\$ 241,273	\$ 88,811	\$ 99,777	\$ 11,265	\$ 1,200,723
Construction Real Estate								
Pass	\$ 53,463	\$ 131,996	\$ 19,602	\$ —	\$ —	\$ —	\$ —	\$ 205,061
Watch	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Total Construction Real Estate	\$ 53,463	\$ 131,996	\$ 19,602	\$ —	\$ —	\$ —	\$ —	\$ 205,061
Commercial Real Estate								
Pass	\$ 199,494	\$ 404,802	\$ 459,603	\$ 250,979	\$ 79,670	\$ 104,358	\$ 43,014	\$ 1,541,920
Watch	1,019	23,038	1,392	155	4,112	77	520	30,313
Special Mention	—	—	—	—	—	—	—	—
Substandard	5,083	1,482	28,198	162	34	929	814	36,702
Doubtful	—	—	—	—	—	—	—	—
Total Commercial Real Estate	\$ 205,596	\$ 429,322	\$ 489,193	\$ 251,296	\$ 83,816	\$ 105,364	\$ 44,348	\$ 1,608,935
Consumer								
Pass	\$ 24,221	\$ 21,497	\$ 8,513	\$ 3,436	\$ 1,002	\$ 1,175	\$ 79,919	\$ 139,763
Watch	3	—	—	—	—	—	—	3
Special Mention	—	—	—	—	—	—	—	—
Substandard	1	23	18	4	20	193	98	357
Doubtful	—	—	—	—	—	—	—	—
Total Consumer	\$ 24,225	\$ 21,520	\$ 8,531	\$ 3,440	\$ 1,022	\$ 1,368	\$ 80,017	\$ 140,123
Commercial								
Pass	\$ 136,749	\$ 87,926	\$ 58,761	\$ 57,240	\$ 7,220	\$ 12,207	\$ 249,891	\$ 609,994
Watch	1,525	323	101	—	—	17	537	2,503
Special Mention	—	—	—	—	—	—	—	—
Substandard	564	751	1,182	108	261	905	335	4,106
Doubtful	—	—	—	—	—	—	—	—
Total Commercial	\$ 138,838	\$ 89,000	\$ 60,044	\$ 57,348	\$ 7,481	\$ 13,129	\$ 250,763	\$ 616,603
Total Loans								
Pass	\$ 558,094	\$ 967,692	\$ 837,965	\$ 552,195	\$ 176,509	\$ 216,785	\$ 384,089	\$ 3,693,329
Watch	3,319	23,609	1,580	698	4,212	306	1,057	34,781
Special Mention	—	—	—	—	—	—	—	—
Substandard	5,678	3,125	29,865	464	409	2,547	1,247	43,335
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 567,091	\$ 994,426	\$ 869,410	\$ 553,357	\$ 181,130	\$ 219,638	\$ 386,393	\$ 3,771,445

At March 31, 2024, PCD loans comprised \$40.0 million of credits rated "Pass"; \$8.5 million of credits rated "Watch"; none rated "Special Mention"; \$3.4 million of credits rated "Substandard"; and none rated "Doubtful".

[Table of Contents](#)

The following table presents the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and fiscal year of origination as of June 30, 2023. This table includes PCD loans, which were reported according to risk categorization after acquisition based on the Company's standards for such classification:

(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving loans	Total
Residential Real Estate								
Pass	\$ 328,142	\$ 312,853	\$ 252,077	\$ 103,735	\$ 25,651	\$ 96,035	\$ 9,100	\$ 1,127,593
Watch	1,214	1,136	616	108	198	27	5	3,304
Special Mention	—	—	—	—	—	—	—	—
Substandard	837	316	510	—	—	857	—	2,520
Doubtful	—	—	—	—	—	—	—	—
Total Residential Real Estate	\$ 330,193	\$ 314,305	\$ 253,203	\$ 103,843	\$ 25,849	\$ 96,919	\$ 9,105	\$ 1,133,417
Construction Real Estate								
Pass	\$ 124,479	\$ 50,011	\$ 10,946	\$ 3,190	\$ —	\$ —	\$ 941	\$ 189,567
Watch	280	—	—	—	—	—	—	280
Special Mention	—	—	—	—	—	—	—	—
Substandard	330	679	—	—	—	—	—	1,009
Doubtful	—	—	—	—	—	—	—	—
Total Construction Real Estate	\$ 125,089	\$ 50,690	\$ 10,946	\$ 3,190	\$ —	\$ —	\$ 941	\$ 190,856
Commercial Real Estate								
Pass	\$ 462,643	\$ 474,140	\$ 279,921	\$ 89,272	\$ 74,653	\$ 83,871	\$ 37,443	\$ 1,501,943
Watch	8,122	5,382	163	3,879	—	117	—	17,663
Special Mention	2,940	—	—	—	—	—	—	2,940
Substandard	7,690	26,465	2,425	288	473	1,735	757	39,833
Doubtful	—	—	—	—	—	—	—	—
Total Commercial Real Estate	\$ 481,395	\$ 505,987	\$ 282,509	\$ 93,439	\$ 75,126	\$ 85,723	\$ 38,200	\$ 1,562,379
Consumer								
Pass	\$ 36,003	\$ 14,530	\$ 5,446	\$ 1,692	\$ 717	\$ 1,379	\$ 73,225	\$ 132,992
Watch	71	—	62	—	—	—	—	133
Special Mention	—	—	—	—	—	—	—	—
Substandard	33	2	1	—	—	41	313	390
Doubtful	—	—	—	—	—	—	—	—
Total Consumer	\$ 36,107	\$ 14,532	\$ 5,509	\$ 1,692	\$ 717	\$ 1,420	\$ 73,538	\$ 133,515
Commercial								
Pass	\$ 138,500	\$ 83,011	\$ 71,054	\$ 10,723	\$ 6,239	\$ 10,657	\$ 272,710	\$ 592,894
Watch	698	211	91	3	—	—	2,549	3,552
Special Mention	—	—	—	—	—	—	—	—
Substandard	860	329	128	184	175	574	334	2,584
Doubtful	—	—	—	—	—	—	—	—
Total Commercial	\$ 140,058	\$ 83,551	\$ 71,273	\$ 10,910	\$ 6,414	\$ 11,231	\$ 275,593	\$ 599,030
Total Loans								
Pass	\$ 1,089,767	\$ 934,545	\$ 619,444	\$ 208,612	\$ 107,260	\$ 191,942	\$ 393,419	\$ 3,544,989
Watch	10,385	6,729	932	3,990	198	144	2,554	24,932
Special Mention	2,940	—	—	—	—	—	—	2,940
Substandard	9,750	27,791	3,064	472	648	3,207	1,404	46,336
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 1,112,842	\$ 969,065	\$ 623,440	\$ 213,074	\$ 108,106	\$ 195,293	\$ 397,377	\$ 3,619,197

At June 30, 2023, PCD loans comprised \$37.4 million of credits rated "Pass"; \$12.7 million of credits rated "Watch", none rated "Special Mention", \$6.3 million of credits rated "Substandard" and none rated "Doubtful".

[Table of Contents](#)

Past-due Loans. The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of March 31, 2024 and June 30, 2023. These tables include PCD loans, which are reported according to aging analysis after acquisition based on the Company's standards for such classification:

(dollars in thousands)	March 31, 2024							
	Greater Than			Total	Current	Total Loans	Greater Than 90	
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due					Days Past Due and Accruing
Real Estate Loans:								
Residential	\$ 1,068	\$ 334	\$ 879	\$ 2,281	\$ 1,198,442	\$ 1,200,723	\$ 81	
Construction	486	69	—	555	204,506	205,061	—	
Commercial	442	129	1,112	1,683	1,607,252	1,608,935	—	
Consumer loans	795	257	193	1,245	138,878	140,123	—	
Commercial loans	1,613	333	930	2,876	613,727	616,603	—	
Total loans	\$ 4,404	\$ 1,122	\$ 3,114	\$ 8,640	\$ 3,762,805	\$ 3,771,445	\$ 81	
June 30, 2023								
(dollars in thousands)	Greater Than			Total	Current	Total Loans	Greater Than 90	
	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due					Days Past Due and Accruing
Real Estate Loans:								
Residential	\$ 1,984	\$ 401	\$ 483	\$ 2,868	\$ 1,130,549	\$ 1,133,417	\$ 109	
Construction	443	311	698	1,452	189,404	190,856	—	
Commercial	616	1,854	1,580	4,050	1,558,329	1,562,379	—	
Consumer loans	456	124	212	792	132,723	133,515	—	
Commercial loans	713	77	789	1,579	597,451	599,030	—	
Total loans	\$ 4,212	\$ 2,767	\$ 3,762	\$ 10,741	\$ 3,608,456	\$ 3,619,197	\$ 109	

At March 31, 2024, and June 30, 2023 there was no PCD loan that was greater than 90 days past due.

Loans that experience insignificant payment delays and payment shortfalls generally are not adversely classified or determined to not share similar risk characteristics with collectively evaluated pools of loans for determination of the ACL estimate. 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. Significant payment delays or shortfalls may lead to a determination that a loan should be individually evaluated for estimated credit losses.

Collateral Dependent Loans. The following tables present the Company's collateral dependent loans and related ACL at March 31, 2024, and June 30, 2023:

(dollars in thousands)	March 31, 2024		
	Amortized cost basis of loans determined to be collateral dependent	Related allowance for credit losses	Related allowance for credit losses
	collateral dependent	for credit losses	
Real estate loans			
1- to 4-family residential real estate	\$ 807	\$ 126	
Commercial real estate	23,230	9,269	
Commercial	1,178	494	
Total loans	\$ 25,215	\$ 9,889	

[Table of Contents](#)

	June 30, 2023		
	Amortized cost basis of	Related allowance	
	loans determined to be	for credit losses	
(dollars in thousands)			
Real estate loans			
1- to 4-family residential	\$ 837	\$ 156	
Construction real estate	642	79	
Commercial real estate	4,897	666	
Total loans	<u>\$ 6,376</u>	<u>\$ 901</u>	

The increase in commercial real estate collateral dependent loans is due primarily to two metropolitan area hotel relationships being individually analyzed as of March 31, 2024; the Company was previously evaluating its non-owner occupied commercial real estate pool for qualitative adjustments related to similar loans.

Nonaccrual Loans. The following table presents the Company's amortized cost basis of nonaccrual loans segmented by class of loans at March 31, 2024, and June 30, 2023. The table excludes performing modifications to borrowers experiencing financial difficulty at March 31, 2024 and excludes performing troubled debt restructurings ("TDRs") at June 30, 2023.

	(dollars in thousands)	March 31, 2024	June 30, 2023
Residential real estate	\$ 1,416	\$ 934	
Construction real estate	—	698	
Commercial real estate	3,250	4,564	
Consumer loans	674	256	
Commercial loans	1,989	1,091	
Total loans	<u>\$ 7,329</u>	<u>\$ 7,543</u>	

At March 31, 2024, there were no nonaccrual loans individually evaluated for which no ACL was recorded. Interest income recognized on nonaccrual loans in the three- and nine- month periods ended March 31, 2024 and 2023, was immaterial.

Modifications to Borrowers Experiencing Financial Difficulty. The Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures," effective July 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measurement of TDRs and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

During the three- month period ended March 31, 2024, there were no loan modifications made for borrowers experiencing financial difficulty. During the nine- month period ended March 31, 2024, certain loan modifications were made to loans for borrowers experiencing financial difficulty. They are shown, segregated by class, in the table below:

	For the nine-month periods ended	
	March 31, 2024	
	Number of modifications	Recorded Investment
(dollars in thousands)		
Residential real estate	—	\$ —
Construction real estate	—	—
Commercial real estate	—	—
Consumer loans	—	—
Commercial loans	2	859
Total	<u>2</u>	<u>\$ 859</u>

[Table of Contents](#)

Performing loans classified as modifications to borrowers experiencing financial difficulty outstanding at March 31, 2024 are shown in the following table segregated by portfolio segment and type of modification. The percentage of amortized cost of loans that were modified compared to total outstanding loans is also presented below.

(dollars in thousands)	March 31, 2024					
	Principal Forgiveness	Payment Delays	Term Modifications	Interest Reduction	Total Class of Financing Receivable	
	\$ —	\$ —	\$ 807	\$ —	0.07 %	
Residential real estate	\$ —	\$ —	\$ 807	\$ —	0.07 %	
Construction real estate	—	—	—	—	— %	
Commercial real estate	—	—	23,627	—	1.47 %	
Consumer loans	—	—	—	—	— %	
Commercial loans	—	235	179	—	0.07 %	
Total	<u><u>\$ —</u></u>	<u><u>\$ 235</u></u>	<u><u>\$ 24,613</u></u>	<u><u>\$ —</u></u>	<u><u>0.66 %</u></u>	

TDRs. Prior to the adoption of ASU 2022-02, the Company's loans that were subject to classification as TDRs were generally the result of guidance under ASU No. 2011-02, which indicated that the Company may not consider the borrower's effective borrowing rate on the old debt immediately before the restructuring in determining whether a concession has been granted. Certain TDRs were classified as nonperforming at the time of restructuring and typically were returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

During the three- and nine- month periods ended March 31, 2023, there were no loans modified as TDRs.

Performing loans classified as TDRs and outstanding at June 30, 2023, segregated by class, are shown in the table below. Nonperforming TDRs at June 30, 2023, are included in the nonaccrual loans table above.

(dollars in thousands)	June 30, 2023	
	Number of modifications	Recorded Investment
Residential real estate	10	\$ 3,438
Construction real estate	—	—
Commercial real estate	6	24,017
Consumer loans	—	—
Commercial loans	6	2,310
Total	<u><u>22</u></u>	<u><u>\$ 29,765</u></u>

[Table of Contents](#)

Residential Real Estate Foreclosures. The Company may obtain physical possession of real estate collateralizing a residential mortgage loan or home equity loan via foreclosure or in-substance repossession. As of March 31, 2024 and June 30, 2023, the Company had no foreclosed residential real estate properties as a result of obtaining physical possession. In addition, as of March 31, 2024, and June 30, 2023, the Company had residential mortgage loans and home equity loans with a carrying value of \$2.1 million and \$1.5 million, respectively, collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Note 5: Premises and Equipment

Following is a summary of premises and equipment:

	(dollars in thousands)	March 31, 2024	June 30, 2023
Land	\$ 15,380	\$ 15,415	
Buildings and improvements	83,982	79,661	
Construction in progress	347	450	
Furniture, fixtures, equipment and software	27,095	26,404	
Automobiles	112	122	
Operating leases ROU asset	6,859	6,125	
	133,775	128,177	
Less accumulated depreciation	37,974	35,780	
	\$ 95,801	\$ 92,397	

Leases. The Company elected certain relief options under ASU 2016-02, Leases (Topic 842), including the option not to recognize right of use asset and lease liabilities that arise from short-term leases (leases with terms of twelve months or less). At March 31, 2024, the Company had 13 leased properties, which included banking facilities, administrative offices and ground leases, and numerous office equipment lease agreements in which it was the lessee, with lease terms exceeding twelve months.

All of the Company's leases are classified as operating leases. These operating leases are included as a ROU asset in the premises and equipment line item on the Company's consolidated balance sheets. The corresponding lease liability is included in the accounts payable and other liabilities line item on the Company's consolidated balance sheets.

In the February 2022 acquisition of Fortune, the Company assumed a ground lease with an entity that is controlled by a Company insider. This property is in St. Louis County, MO and is in its fourth year of a twenty year term.

ASU 2016-02 also requires certain other accounting elections. The Company elected the short-term lease recognition exemption for all leases that qualify, meaning those with terms under twelve months. ROU assets or lease liabilities are not to be recognized for short-term leases. The calculated amount of the ROU assets and lease liabilities in the table below are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, the ASU requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception over a similar term. The expected lease terms range from 18 months to 20 years.

[Table of Contents](#)

	<u>March 31, 2024</u>		<u>June 30, 2023</u>		
Consolidated Balance Sheet					
Operating leases ROU asset	\$ 6,859		\$ 6,125		
Operating leases liability	\$ 6,859		\$ 6,125		
	For the three-month periods ended March 31, <i>(dollars in thousands)</i>	2024	2023	For the nine-month periods ended March 31, 2024	2023
Consolidated Statement of Income					
Operating lease costs classified as occupancy and equipment expense (includes short-term lease costs)	\$ 294	\$ 189	\$ 880	\$ 467	
Supplemental disclosures of cash flow information					
Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from operating leases	\$ 208	\$ 148	\$ 623	\$ 354	
ROU assets obtained in exchange for operating lease obligations:	\$ —	\$ —	\$ 2,445	\$ —	

At March 31, 2024, future expected lease payments for leases with terms exceeding one year were as follows:

<i>(dollars in thousands)</i>	
2024	\$ 215
2025	806
2026	754
2027	742
2028	728
Thereafter	8,930
Future lease payments expected	<u>\$ 12,175</u>

The Company leases facilities it owns or portions of facilities it owns to other third parties. The Company has determined that all of these lease agreements, in terms of being the lessor, are classified as operating leases. For the three- and nine- month periods ended March 31, 2024, income recognized from these lessor agreements was \$79,000 and \$212,000, respectively. For the three- and nine- month periods ended March 31, 2023, income recognized from these lessor agreements was \$39,000 and \$171,000, respectively.

Note 6: Deposits

Deposits are summarized as follows:

<i>(dollars in thousands)</i>	<u>March 31, 2024</u>	<u>June 30, 2023</u>
Non-interest bearing accounts	\$ 525,959	\$ 597,600
NOW accounts	1,300,358	1,328,423
Money market deposit accounts	369,653	452,728
Savings accounts	455,212	282,753
Certificates	1,344,328	1,064,036
Total Deposit Accounts	<u>\$ 3,995,510</u>	<u>\$ 3,725,540</u>

Brokered certificates totaled \$176.9 million at March 31, 2024, compared to \$ 146.5 million at June 30, 2023.

[Table of Contents](#)

Note 7: Earnings Per Share

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

(dollars in thousands except per share data)	Three months ended March 31,		Nine months ended March 31,	
	2024	2023	2024	2023
Net income	\$ 11,307	\$ 2,409	\$ 36,652	\$ 23,676
Less: distributed earnings allocated to participating securities	(12)	(10)	(37)	(31)
Less: undistributed earnings allocated to participating securities	(46)	(8)	(151)	(89)
Net income available to common shareholders	\$ 11,249	\$ 2,391	\$ 36,464	\$ 23,556
Denominator for basic earnings per share -				
Weighted-average shares outstanding	11,301,577	10,843,689	11,298,174	9,739,673
Effect of dilutive securities stock options or awards	10,971	14,652	9,260	20,459
Denominator for diluted earnings per share	11,312,548	10,858,341	11,307,434	9,760,132
Basic earnings per share available to common stockholders	\$ 1.00	\$ 0.22	\$ 3.23	\$ 2.42
Diluted earnings per share available to common stockholders	\$ 0.99	\$ 0.22	\$ 3.22	\$ 2.41

Certain option and restricted stock awards were excluded from the computation of diluted earnings per share because they were anti-dilutive, based on the average market prices of the Company's common stock for these periods. Outstanding options and shares of restricted stock totaling 75,000 and 79,830 were excluded from the computation of diluted earnings per share for the three- and nine- month periods ended March 31, 2024, respectively, while outstanding options and shares of restricted stock totaling 84,740 and 66,440 were excluded from the computation of diluted earnings per share for the three- and nine- month periods ended March 31, 2023, respectively.

Note 8: Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to federal examinations by tax authorities for tax years ending June 30, 2019 and before. The Company's Missouri income tax returns for the fiscal years ending June 30, 2016 through 2018 are under audit by the Missouri Department of Revenue. The Company recognized no interest or penalties related to income taxes for the periods presented.

The Company's income tax provision is comprised of the following components:

(dollars in thousands)	For the three-month periods ended March 31, 2024		For the nine-month periods ended March 31, 2024	
	March 31, 2024	March 31, 2023	March 31, 2024	March 31, 2023
Income taxes				
Current	\$ 2,417	\$ 2,572	\$ 9,077	\$ 8,269
Deferred	420	(1,994)	420	(1,981)
Total income tax provision	\$ 2,837	\$ 578	\$ 9,497	\$ 6,288

[Table of Contents](#)

The components of net deferred tax assets (included in other assets on the condensed consolidated balance sheet) are summarized as follows:

(dollars in thousands)	<u>March 31, 2024</u>	June 30, 2023
Deferred tax assets:		
Provision for losses on loans	\$ 12,070	\$ 12,101
Accrued compensation and benefits	969	974
NOL carry forwards acquired	123	709
Low income tax credit carry forward	595	1,192
Unrealized loss on other real estate	949	818
Unrealized loss on available for sale securities	5,363	6,174
Total deferred tax assets	<u>20,069</u>	<u>21,968</u>
Deferred tax liabilities:		
Purchase accounting adjustments	2,449	2,348
Depreciation	4,684	4,276
FHLB stock dividends	120	120
Prepaid expenses	677	728
Other	509	1,636
Total deferred tax liabilities	<u>8,439</u>	<u>9,108</u>
Net deferred tax asset	<u>\$ 11,630</u>	<u>\$ 12,860</u>

As of March 31, 2024, the Company had approximately \$ 557,000 in federal net operating loss carryforwards, which were acquired in the July 2009 Southern Bank of Commerce merger, the February 2014 Citizens State Bankshares of Bald Knob, Inc. merger, the April 2020 Central Federal Savings and Loan merger, the February 2022 Fortune merger, and the January 2023 Citizens merger. The amount reported is net of the IRC Sec. 382 limitation, or state equivalent, related to utilization of net operating loss carryforwards of acquired corporations. Unless otherwise utilized, the net operating losses will begin to expire in 2030.

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

(dollars in thousands)	<u>March 31, 2024</u>	<u>March 31, 2023</u>	<u>For the three-month periods ended</u>	<u>March 31, 2024</u>	<u>March 31, 2023</u>	<u>For the nine-month periods ended</u>
Tax at statutory rate	<u>\$ 2,970</u>	<u>\$ 627</u>	<u>\$ 9,692</u>	<u>\$ 6,292</u>		
Increase (reduction) in taxes resulting from:						
Nontaxable municipal income	(124)	(54)	(349)	(211)		
State tax, net of Federal benefit	61	(179)	356	—		
Cash surrender value of Bank-owned life insurance	(101)	(77)	(297)	(211)		
Tax credit benefits	(3)	(3)	(10)	(7)		
Other, net	34	264	105	425		
Actual provision	<u>\$ 2,837</u>	<u>\$ 578</u>	<u>\$ 9,497</u>	<u>\$ 6,288</u>		

For the three- and nine- month periods ended March 31, 2024 and 2023, income tax expense at the statutory rate was calculated using a 21% annual effective tax rate (AETR).

Tax credit benefits are recognized under the deferral method of accounting for investments in tax credits.

Note 9: 401(k) Retirement Plan

The Bank has a 401(k) retirement plan that covers substantially all eligible employees. The Bank made "safe harbor" matching contributions to the Plan of up to 4% of eligible compensation, depending upon the percentage of eligible pay deferred into the plan by the employee, and also made additional, discretionary profit-sharing contributions for fiscal 2023. For fiscal 2024, the Company has maintained the safe harbor matching contribution of up to 4%, and expects to continue to make additional, discretionary profit-sharing contributions. During the three- and nine- month period ended March 31, 2024, retirement plan expenses recognized for the Plan totaled approximately \$683,000 and \$2.1 million, respectively, as compared to \$619,000 and \$1.7 million for the same periods of the prior fiscal year. Employee deferrals and safe harbor contributions are fully vested. Profit-sharing or other contributions vest over a period of five years.

Note 10: Subordinated Debt

In March 2004, the Company established Southern Missouri Statutory Trust I as a statutory business trust, to issue Floating Rate Capital Securities (the "Trust Preferred Securities"). The securities mature in 2034, became redeemable after five years, and bear interest at a floating rate based on SOFR. The securities represent undivided beneficial interests in the trust, which was established by the Company for the purpose of issuing the securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. Southern Missouri Statutory Trust I used the proceeds from the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures (the "Debentures") of the Company which have terms identical to the Trust Preferred Securities. At March 31, 2024, the Debentures carried an interest rate of 8.34%. The balance of the Debentures outstanding was \$7.2 million at both March 31, 2024 and June 30, 2023. The Company used its net proceeds for working capital and investment in its subsidiaries.

In connection with the October 2013 Ozarks Legacy Community Financial, Inc. (OLCF) merger, the Company assumed \$3.1 million in floating rate junior subordinated debt securities. The debt securities had been issued in June 2005 by OLCF in connection with the sale of trust preferred securities, bear interest at a floating rate based on SOFR, are now redeemable at par, and mature in 2035. At March 31, 2024, the current rate was 8.04%. The carrying value of the debt securities was approximately \$2.8 million and \$2.7 million at March 31, 2024 and June 30, 2023, respectively.

In connection with the August 2014 Peoples Service Company, Inc. (PSC) merger, the Company assumed \$ 6.5 million in floating rate junior subordinated debt securities. The debt securities had been issued in 2005 by PSC's subsidiary bank holding company, Peoples Banking Company, in connection with the sale of trust preferred securities, bear interest at a floating rate based on SOFR, are now redeemable at par, and mature in 2035. At March 31, 2024, the current rate was 7.39%. The carrying value of the debt securities was approximately \$ 5.5 million at both March 31, 2024 and June 30, 2023.

The Company's investment at a face amount of \$ 505,000 in these trusts is included with Prepaid Expenses and Other Assets in the consolidated balance sheets, and is carried at a value of \$467,000 and \$464,000 at March 31, 2024 and June 30, 2023, respectively.

In connection with the February 2022 Fortune merger, the Company assumed \$ 7.5 million in fixed-to-floating rate subordinated notes. The notes had been issued in May 2021 by Fortune to a multi-lender group, bear interest through May 2026 at a fixed rate of 4.5% and will bear interest thereafter at SOFR plus 3.77%. The notes will be redeemable at par beginning in May 2026, and mature in May 2031. The carrying value of the notes was approximately \$7.6 million and \$7.7 million at March 31, 2024 and June 30, 2023, respectively.

Note 11: Fair Value Measurements

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity that are significant to the fair value of the assets or liabilities

Recurring Measurements. The following table presents the fair value measurements recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2024 and June 30, 2023:

(dollars in thousands)	Fair Value Measurements at March 31, 2024, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of state and political subdivisions	\$ 28,108	\$ —	\$ 28,108	\$ —
Corporate obligations	33,813	—	33,813	—
Asset backed securities	64,795	—	64,795	—
Other securities	5,608	—	5,608	—
MBS and CMOs	301,365	—	301,365	—

(dollars in thousands)	Fair Value Measurements at June 30, 2023, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of state and political subdivisions	\$ 42,568	\$ —	\$ 42,568	\$ —
Corporate obligations	32,538	—	32,538	—
Asset backed securities	68,626	—	68,626	—
Other securities	3,570	—	3,570	—
MBS and CMOs	270,252	—	270,252	—

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-sale Securities. When quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated using pricing models, or quoted prices of securities with similar characteristics. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements. The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fell at March 31, 2024 and June 30, 2023:

(dollars in thousands)	Fair Value Measurements at March 31, 2024, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed and repossessed assets held for sale	\$ 759	\$ —	\$ —	\$ 759

(dollars in thousands)	Fair Value Measurements at June 30, 2023, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreclosed and repossessed assets held for sale	\$ 1,472	\$ —	\$ —	\$ 1,472

The following table presents losses recognized on assets measured on a non-recurring basis for the nine-month periods ended March 31, 2024 and 2023:

(dollars in thousands)	For the nine months ended	
	March 31, 2024	March 31, 2023
Foreclosed and repossessed assets held for sale	\$ (687)	\$ (123)
Total losses on assets measured on a non-recurring basis	\$ (687)	\$ (123)

The following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of fair value hierarchy, the process used to develop the reported fair value process is described below.

Foreclosed and Repossessed Assets Held for Sale. Foreclosed and repossessed assets held for sale are valued at the time the loan is foreclosed upon or collateral is repossessed and the asset is transferred to foreclosed or repossessed assets held for sale. The value of the asset is based on third party or internal appraisals, less estimated costs to sell and appropriate discounts, if any. The appraisals are generally discounted based on current and expected market conditions that may impact the sale or value of the asset and management's knowledge and experience with similar assets. Such discounts typically may be significant and result in a Level 3 classification of the inputs for determining fair value of these assets. Foreclosed and repossessed assets held for sale are continually evaluated for additional impairment and are adjusted accordingly if impairment is identified.

Unobservable (Level 3) Inputs. The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at March 31, 2024 and June 30, 2023.

(dollars in thousands)	Fair value at March 31, 2024	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
Nonrecurring Measurements					
Foreclosed and repossessed assets	\$ 759	Third party appraisal	Marketability discount	17.9 - 17.9 %	17.9 %
(dollars in thousands)	Fair value at June 30, 2023	Valuation technique	Unobservable inputs	Range of inputs applied	Weighted-average inputs applied
Nonrecurring Measurements					
Foreclosed and repossessed assets	\$ 1,472	Third party appraisal	Marketability discount	14.9 - 14.9 %	14.9 %

Fair Value of Financial Instruments. The following table presents estimated fair values of the Company's financial instruments not reported at fair value and the level within the fair value hierarchy in which the fair value measurements fell at March 31, 2024 and June 30, 2023.

(dollars in thousands)	March 31, 2024			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	\$ 168,273	\$ 168,273	\$ —	\$ —
Interest-bearing time deposits	490	—	490	—
Stock in FHLB	8,667	—	8,667	—
Stock in Federal Reserve Bank of St. Louis	9,067	—	9,067	—
Loans receivable, net	3,719,858	—	—	3,583,300
Accrued interest receivable	21,807	—	21,807	—
Financial liabilities				
Deposits	3,995,510	2,651,184	—	1,337,030
Advances from FHLB	102,043	—	100,869	—
Accrued interest payable	11,965	—	11,965	—
Subordinated debt	23,143	—	—	20,458
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	—	—	—	—
Letters of credit	—	—	—	—
Lines of credit	—	—	—	—

(dollars in thousands)	June 30, 2023			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	\$ 53,979	\$ 53,979	\$ —	\$ —
Interest-bearing time deposits	1,242	—	1,242	—
Stock in FHLB	11,540	—	11,540	—
Stock in Federal Reserve Bank of St. Louis	9,061	—	9,061	—
Loans receivable, net	3,571,078	—	—	3,393,791
Accrued interest receivable	18,871	—	18,871	—
Financial liabilities				
Deposits	3,725,540	2,661,479	—	1,053,650
Advances from FHLB	133,514	—	131,821	—
Accrued interest payable	4,723	—	4,723	—
Subordinated debt	23,105	—	—	20,318
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	—	—	—	—
Letters of credit	—	—	—	—
Lines of credit	—	—	—	—

Note 12: Business Combinations

On January 20, 2023, the Company completed its acquisition of Citizens and its wholly owned subsidiary, Citizens Bank, in a stock and cash transaction. In late February 2023, the Company merged Citizens Bank with and into Southern Bank, coincident to the data systems conversion. For the three- and nine- month periods ended March 31, 2024, the Company incurred \$4,000 and \$98,000, respectively, compared to \$3.3 million and \$4.1 million in the same periods of the prior fiscal year, of third-party acquisition-related costs, included in noninterest expense in the Company's condensed consolidated statements of income.

Under the acquisition method of accounting, the total purchase price is allocated to the net tangible and intangible assets acquired based on their estimated fair values on the date of the acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, the purchase price for the Citizens acquisition is detailed in the following table. If, prior to the end of the one-year measurement period for finalizing the purchase price allocation, information becomes available about facts and circumstances that existed as of the acquisition date, which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

[Table of Contents](#)

Citizens Bancshares Company

Fair Value of Consideration Transferred

	(dollars in thousands)
Cash	\$ 34,889
Common stock, at fair value	98,280
Total consideration	<u>\$ 133,169</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	\$ 243,225
Investment securities	226,497
Loans	447,388
Premises and equipment	23,430
BOLI	21,733
Identifiable intangible assets	24,645
Miscellaneous other assets	9,366
Deposits	(851,140)
Securities sold under agreements to repurchase	(27,629)
Miscellaneous other liabilities	<u>(7,784)</u>
Total identifiable net assets	<u>109,731</u>
Goodwill	<u>\$ 23,438</u>

Of the total purchase price, \$22.1 million was allocated to core deposit intangible, and is being amortized over ten years on a straight line basis, \$2.6 million was allocated to the intangible related to the acquired trust and wealth management business line and is being amortized over ten years on a straight line basis, and \$23.4 million was allocated to goodwill. None of the purchase price is deductible. Goodwill is attributable to synergies and economies of scale expected from combining the operations of the Bank and Citizens Bank. To the extent that management revises any of the fair value of the above fair value adjustments as a result of continuing evaluation, the amount of goodwill recorded in the merger will change.

The Company acquired the \$461.5 million loan portfolio at an estimated fair value discount of \$14.1 million. The excess of expected cash flows above the fair value of the performing portion of loans is being accreted to interest income over the remaining lives of the loans in accordance with ASC 310-30. Loans acquired that were not subject to guidance relating to PCD loans include loans with a fair value of \$419.5 million and gross contractual amounts receivable of \$520.0 million at the date of acquisition. Management identified 48 PCD loans, with a book balance of \$27.5 million, associated with the Citizens acquisition (ASC 310-30).

The acquired business contributed revenues of \$14.7 million and earnings of \$2.5 million for the period from July 1, 2023 through March 31, 2024. The following unaudited pro forma summaries present consolidated information of the Company as if the business combination had occurred on the first day of each period:

	Pro Forma	
	For the three months ended	
	March 31,	
	(dollars in thousands)	2024
Revenue	\$ 40,093	\$ 43,232
Earnings	\$ 11,307	\$ 4,103

	Pro Forma	
	For the nine months ended	
	March 31,	
	(dollars in thousands)	2024
Revenue	\$ 121,465	\$ 138,709
Earnings	\$ 36,652	\$ 35,595

PART I: Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

SOUTHERN MISSOURI BANCORP, INC.

General

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Bank (the Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank. The Bank's deposit accounts are generally insured up to a maximum of \$250,000 by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2024, the Bank operated from its headquarters, 62 full-service branch offices, and three limited-service branch offices. The Bank owns the office building and related land in which its headquarters are located, and 59 of its other branch offices. The remaining six branches are either leased or partially owned.

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

The condensed consolidated balance sheet of the Company as of June 30, 2023, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes. The following discussion reviews the Company's condensed consolidated financial condition at March 31, 2024, and results of operations for the three- and nine- month periods ended March 31, 2024 and 2023.

Forward Looking Statements

This document contains statements about the Company and its subsidiaries which we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and are not guarantees of future performance. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified in this filing and in our other filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- the remaining effects of the COVID-19 pandemic on general economic conditions, either nationally or in the Company's market and lending areas;
- expected cost savings, synergies and other benefits from our merger and acquisition activities, including our recently completed acquisitions, might not be realized within the anticipated time frames, to the extent anticipated, or at all, and costs or difficulties relating to integration matters,

including but not limited to customer and employee retention and labor shortages, might be greater than expected and goodwill impairment charges might be incurred;

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- fluctuations in interest rates and inflation, including the effects of a potential recession whether caused by Federal Reserve actions or otherwise or slowed economic growth caused by changes in oil prices or supply chain disruptions;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the U.S. Government and other governmental initiatives affecting the financial services industry;
- the impact of bank failures or adverse developments at other banks and related negative press about the banking industry in general on investor and depositor sentiment;
- the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for credit losses;
- our ability to access cost-effective funding and maintain sufficient liquidity;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- fluctuations in real estate values and both residential and commercial real estate markets, as well as agricultural business conditions;
- demand for loans and deposits;
- legislative or regulatory changes that adversely affect our business;
- natural disasters, war, terrorist activities or civil unrest and their effects on economic and business environments in which the Company operates;
- changes in accounting principles, policies, or guidelines;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require an increase in our reserve for loan losses or a write-down of assets;
- the impact of technological changes;
- cyber threats such as phishing, ransomware, and insider attacks can lead to financial loss, reputational damage, and regulatory penalties if sensitive customer data and critical infrastructure are not adequately protected; and
- our success at managing the risks involved in the foregoing.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Critical Accounting Policies

Accounting principles generally accepted in the United States of America are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2023 Annual Report on Form 10-K and more recent changes, if any, would be included in Note 2 of the "Notes to the Consolidated Financial Statements" in this Form 10-Q. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Company's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies and Estimates" beginning on page 64 in the Company's 2023 Annual Report.

Executive Summary

Our results of operations depend primarily on our net interest margin, which is directly impacted by the interest rate environment. The net interest margin represents interest income earned on interest-earning assets (primarily real estate loans, commercial and agricultural loans, and the investment portfolio), less interest expense paid on interest-bearing liabilities (primarily interest-bearing transaction accounts, certificates of deposit, savings and money market deposit accounts, and borrowed funds), as a percentage of average interest-earning assets. Net interest margin is directly impacted by the spread between long-term interest rates and short-term interest rates, as our interest-earning assets, particularly those with initial terms to maturity or repricing greater than one year, generally price off longer term rates while our interest-bearing liabilities generally price off shorter term interest rates. This difference in longer term and shorter term interest rates is often referred to as the steepness of the yield curve. A steep yield curve – in which the difference in interest rates between short term and long term periods is relatively large – could be beneficial to our net interest income, as the interest rate spread between our interest-earning assets and interest-bearing liabilities would be larger. Conversely, a flat or flattening yield curve, in which the difference in rates between short term and long term periods is relatively small or shrinking, or an inverted yield curve, in which short term rates exceed long term rates, could have an adverse impact on our net interest income, as our interest rate spread could decrease.

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

During the first nine months of fiscal 2024, total assets increased by \$286.8 million. The increase was primarily attributable to an increase in net loans receivable, cash equivalents, and available for sale (AFS) securities. Cash equivalents increased by \$113.5 million; AFS securities increased \$16.1 million; and loans, net of the ACL, increased \$148.8 million. Liabilities increased \$253.3 million, including an increase in deposits of \$270.0 million, partially offset by a decrease in advances from the Federal Home Loan Bank (FHLB) of \$31.5 million. Equity increased \$33.5 million, attributable primarily to earnings retained after cash dividends paid, in combination with a \$2.9 million reduction in accumulated other comprehensive losses ("AOCL") due to losses recognized on the sale of AFS securities and as the market value of the Company's investments appreciated due to the tightening of interest rate spreads.

Net income for the first nine months of fiscal 2024 was \$36.7 million, an increase of \$13.0 million, or 54.8% as compared to the same period of the prior fiscal year. Compared to the year-ago period, the Company's increase in net income was attributable to an increase in net interest income and a lower provision for credit losses ("PCL") that was partially offset by increased noninterest expense, an increase in provision for income taxes, and slightly lower noninterest income. Diluted net income was \$3.22 per common share for the first nine months of fiscal 2024, as compared to \$2.41 per common share for the same period of the prior fiscal year. For the first nine months of fiscal 2024, as compared to the same period of the prior fiscal year, net interest income increased \$13.9 million or 15.3%; provision for credit losses ("PCL") decreased from \$13.6 million to \$2.7 million; noninterest income decreased \$177,000, or 1.0%; noninterest expense increased \$11.1 million, or 18.0%; and provision for income tax increased \$3.2 million, or 51.0%. During the first nine months of fiscal 2024, the Bank sold bonds with a book value of \$30.8 million,

realizing a loss of \$1.5 million recognized in noninterest income. These proceeds were reinvested into in higher yielding fixed rate securities, which is expected to result in an earn back of the realized loss in under two years. Recognition of this loss reduced after-tax net income by \$1.2 million. For more information see "Results of Operations."

Interest rates during the first nine months of fiscal 2024 remained volatile. While the yield curve remained inverted, with shorter-term obligations yielding more than longer-term obligations, the curve did flatten some. At times over the current nine-month period, market expectations for an easing of monetary policy by the Federal Reserve's Open Market Committee (FOMC) driving yields in the mid-to-longer part of the curve lower. Market expectations reversed somewhat in the most recent quarter based mostly on inflation and employment data that was reported at higher-than-expected levels. While the Federal Reserve's Open Market Committee (FOMC) has raised short-term rates significantly since March 2022, and the market and FOMC expect rates to normalize at some point, with lower longer term rates compared to the short end of the curve, a flattening has occurred in this period due to persistently higher inflation, increasing the mid to longer end of the curve since fiscal year end 2023. At March 31, 2024, as compared to June 30, 2023, the yield on two-year treasuries decreased from 4.90% to 4.63%; the yield on five-year treasuries increased from 4.16% to 4.22%; the yield on ten-year treasuries increased from 3.82% to 4.21%; and the yield on 30-year treasuries increased from 3.86% to 4.35%.

As compared to the first nine months of the prior fiscal year, our average yield on earning assets increased by 102 basis points, primarily attributable to increased yields on loans receivable, available for sale securities, and cash and cash equivalents, as compared to year-ago levels. Our cost of interest-bearing liabilities increased by 152 basis points, as the Company increased offering rates on nonmaturity accounts and maturing time deposits to adjust to the higher rate environment. Special deposit rates and some brokered CD funding were utilized to reduce the Company's overnight borrowing position early in the period. (See "Results of Operations: Comparison of the nine-month periods ended March 31, 2024 and 2023 – Net Interest Income".) Higher market rates reflected the policy of the FOMC, which has increased overnight funding rates and began a "quantitative tightening" program to reverse some of the excess reserves placed into the financial system since March 2020. The impact of the prior fiscal year's rapid increase in the level of short-term market interest rates, along with the yield curve inversion has been concerning, as our cost of funds has increased at a faster pace than our asset yields over recent periods; however, relatively stable price competition for deposits, along with the increased percentage of our deposits that have already repriced in the current higher rate environment, in combination with new loan originations at higher market liabilities repricing more quickly than assets and the yield curve inversion has been concerning. Because of this, our cost of funds has increased at a faster pace than our asset yields over recent periods and may continue to do so. However, deposit pricing competition has stabilized and our deposits have mostly already adjusted to the higher rate environment. In combination with new loan originations at higher long term rates, may provide some relief to net interest income and net interest margin compression in future periods.

The Company's net income is also affected by the level of its noninterest income and noninterest expense. Noninterest income generally consists primarily of deposit account service charges, bank card interchange income, loan-related fees, earnings on bank-owned life insurance, gains on sales of loans, and other general operating income. Noninterest expense consists primarily of compensation and employee benefits, occupancy-related expenses, data processing expense, telecommunications expense, deposit insurance assessments, professional fees, advertising, postage and office expenses, other insurance expenses, the amortization of intangible assets, and other general operating expenses.

The Company's noninterest income for the nine-month period ended March 31, 2024, was \$17.1 million, a decrease \$177,000, or 1.0%, as compared to the same period of the prior fiscal year. In the current period, increases in wealth management, bank card interchange income, and earnings on bank owned life insurance (BOLI), were more than offset by realized losses on the sale of AFS securities, as well as lower other income, other loan fees, deposit account charges, and loan servicing fees. Wealth management has benefitted from higher assets under management, and BOLI earnings have improved due mostly to increased investments in policies, both attributable primarily to the Citizens merger partly due to asset appreciation; and interchange income has increased due to higher card volume year to date, driving fee income growth; and BOLI earnings have increased from higher credit rates as insurers pass on some of the increase in the underlying investment yields from the higher rate environment. These increases were more than offset by the realized losses in the investment portfolio; and inclusion in the prior-year period of a one-time gain on the sale of fixed assets of \$317,000, resulting in lower other income in the current fiscal year. Other loan fees were down due to the

decrease in loan origination volume, in commercial and specifically in and lower originations of residential real estate loans, specifically also resulted in declining recognition of new mortgage servicing rights; and deposit account charges and related fees have decreased due to changes adopted in July 2023 as to how fees are assessed on NSF items.

Noninterest expense for the nine-month period ended March 31, 2024, was \$72.6 million, an increase of \$11.1 million, or 18.0%, as compared to the same period of the prior fiscal year. The increase was attributable primarily to increases in compensation and benefits, occupancy expenses, data processing fees, intangible amortization, and deposit insurance premiums, partially offset by a decrease in legal and professional fees. The increase in compensation and benefits as compared to the prior year period was primarily due to increased headcount resulting from the Citizens merger, an increase in legacy employee headcount, as well as annual merit increases and inflation adjustments. Occupancy expenses increased primarily due to facilities added through the Citizens merger, and other equipment purchases. The Company's increase in data processing costs relates to the growing volume of transaction activity, increased costs of software licensing, and new programs for lending and wealth management. Intangible amortization also increased due to the Citizens merger. Increased deposit insurance premiums were primarily due to the increase in the assessment base following the Citizens merger as well as the FDIC's increased base assessment rates effective January 2023. Legal and professional fees declined primarily due to inclusion in that category of merger-related expenses in the same period a year ago.

We expect, over time, to continue to grow our assets through the origination and occasional purchase of loans, and purchases of investment securities. The primary funding for this asset growth is expected to come from retail deposits, brokered funding, and short- and long-term FHLB borrowings. We have grown and intend to continue to grow deposits by offering desirable deposit products for our current customers and by attracting new depository relationships. We will also continue to explore strategic expansion opportunities in market areas that we believe will be attractive to our business model.

Comparison of Financial Condition at March 31, 2024 and June 30, 2023

The Company experienced balance sheet growth in the first nine months of fiscal 2024, with total assets of \$4.6 billion at March 31, 2024, reflecting an increase of \$286.8 million, or 6.6%, as compared to June 30, 2023. Growth primarily reflected an increase in net loans receivable, cash and cash equivalents, and available for sale (AFS) securities.

Cash and cash equivalents were a combined \$168.8 million at March 31, 2024, an increase of \$113.5 million, or 205.6%, as compared to June 30, 2023. The increase was primarily the result of strong deposit generation that outpaced loan growth during the period. AFS securities were \$433.7 million at March 31, 2024, up \$16.1 million, or 3.9%, as compared to June 30, 2023.

Loans, net of the allowance for credit losses ("ACL"), were \$3.7 billion at March 31, 2024, an increase of \$148.8 million, or 4.2%, as compared to June 30, 2023. Gross loans increased by \$152.3 million, while the ACL attributable to outstanding loan balances increased \$3.5 million, or 7.4%, as compared to June 30, 2023. The increase in loan balances was attributable to growth in non-owner occupied commercial real estate loans, residential real estate loans, multi-family, and drawn construction loan balances. This was partially offset by pay-offs and paydowns in owner-occupied commercial real estate and commercial and industrial loans.

Loans anticipated to fund in the next 90 days totaled \$117.2 million at March 31, 2024, as compared to \$140.5 million at December 31, 2023, and \$164.4 million at March 31, 2023.

The Bank's concentration in non-owner occupied commercial real estate loans is estimated at 329.3% of Tier 1 capital and ACL on March 31, 2024, as compared to 330.2% as of June 30, 2023, with these loans representing 42.6% of total loans at March 31, 2024. Multi-family residential real estate, hospitality (hotels/restaurants), care facilities, retail stand-alone, and strip centers are the most common collateral types within the non-owner occupied commercial real estate loan portfolio. The multi-family residential real estate loan portfolio commonly includes loans collateralized by properties currently in the low-income housing tax credit (LIHTC) program or having exited the program. The hospitality and retail stand-alone segments include primarily franchised businesses; care facilities consist mainly of skilled nursing and

assisted living centers; and the strip centers can be defined as non-mall shopping centers with a variety of tenants. Non-owner occupied office property types included 36 loans totaling \$27.2 million, or 0.72% of total loans at March 31, 2024, none of which were adversely classified as of March 31, 2024, and are generally comprised of smaller spaces with diverse tenants. The Company continues to monitor its commercial real estate concentration and the individual segments closely.

Deposits were \$4.0 billion at March 31, 2024, an increase of \$270.0 million, or 7.2%, as compared to June 30, 2023. The deposit portfolio saw year-to-date increases in certificates of deposit and savings accounts, as customers remained willing to move balances into high yield savings accounts and special rate time deposits in the current higher rate environment. Public unit balances totaled \$624.5 million at March 31, 2024, an increase of \$46.0 million compared to June 30, 2023, and increased \$30.4 million from December 31, 2023, the linked quarter, reflecting seasonal trends. Brokered deposits totaled \$187.0 million at March 31, 2024, an increase of \$27.3 million as compared to June 30, 2023, but a decrease of \$13.6 million compared to December 31, 2023, the linked quarter. The average loan-to-deposit ratio for the third quarter of fiscal 2024 was 92.5%, as compared to 95.8% for the quarter ended June 30, 2023, and 91.2% for the same period of the prior fiscal year.

FHLB advances were \$102.0 million at March 31, 2024, a decrease of \$31.5 million, or 23.6%, as compared to June 30, 2023, as the Company utilized deposit growth to repay overnight and maturing FHLB advances. For the quarter ended March 31, 2024, the Company continued to have no FHLB overnight borrowings.

The Company's stockholders' equity was \$479.6 million at March 31, 2024, an increase of \$33.5 million, or 7.5%, as compared to June 30, 2023. The increase was attributable primarily to earnings retained after cash dividends paid, in combination with a \$2.9 million reduction in accumulated other comprehensive losses ("AOCL") due to losses recognized on the sale of AFS securities and as the market value of the Company's investments appreciated during the fiscal year to date due to the tightening of interest rate spreads. The AOCL totaled \$19.1 million at March 31, 2024, compared \$21.9 million at June 30, 2023. The Company does not hold any securities classified as held-to-maturity. The increase in stockholders' equity was partially offset by \$187,000 utilized for repurchases of 4,438 shares of the Company's common stock during the third fiscal quarter of 2024 at an average price of \$42.04 per share.

Average Balance Sheet, Interest, and Average Yields and Rates for the Three- and Nine- Month Periods Ended March 31, 2024 and 2023

The tables below present certain information regarding our financial condition and net interest income for the three- and nine- month periods ended March 31, 2024 and 2023. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Yields on tax-exempt obligations were not computed on a tax equivalent basis.

(dollars in thousands)	Three-month period ended			Three-month period ended		
	March 31, 2024			March 31, 2023		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest-earning assets:						
Mortgage loans ⁽¹⁾	\$ 3,033,034	\$ 42,957	5.67	\$ 2,738,256	\$ 33,740	4.93
Other loans ⁽¹⁾	693,597	12,995	7.49	596,641	9,375	6.29
Total net loans	3,726,631	55,952	6.01	3,334,897	43,115	5.17
Mortgage-backed securities	308,236	3,757	4.88	294,029	1,652	2.25
Investment securities ⁽²⁾	164,668	1,729	4.20	129,755	2,076	6.40
Other interest-earning assets	182,427	2,587	5.67	129,977	1,443	4.55
TOTAL INTEREST- EARNING ASSETS ⁽¹⁾	4,381,962	64,025	5.84	3,888,658	48,286	4.97
Other noninterest-earning assets ⁽³⁾	291,591	—	—	270,131	—	—
TOTAL ASSETS	\$ 4,673,553	\$ 64,025	—	\$ 4,158,789	\$ 48,286	—
 Interest-bearing liabilities:						
Savings accounts	\$ 415,814	\$ 2,506	2.41	\$ 332,890	\$ 517	0.62
NOW accounts	1,323,565	7,254	2.19	1,416,933	5,605	1.58
Money market accounts	387,857	3,109	3.21	394,996	2,191	2.22
Certificates of deposit	1,370,266	15,152	4.42	901,344	5,392	2.39
TOTAL INTEREST- BEARING DEPOSITS	3,497,502	28,021	3.20	3,046,163	13,705	1.80
Borrowings:						
Securities sold under agreements to repurchase	—	—	—	16,592	213	5
FHLB advances	111,830	1,060	3.79	35,645	206	2.31
Junior subordinated debt	23,137	435	7.51	23,086	395	6.84
TOTAL INTEREST- BEARING LIABILITIES	3,632,469	29,516	3.25	3,121,486	14,519	1.86
Noninterest-bearing demand deposits	532,075	—	—	608,782	—	—
Other liabilities	33,902	—	—	15,718	—	—
TOTAL LIABILITIES	4,198,446	29,516	—	3,745,986	14,519	—
Stockholders' equity	475,107	—	—	412,803	—	—
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,673,553	\$ 29,516	—	\$ 4,158,789	\$ 14,519	—
 Net interest income	 \$ 34,509			 \$ 33,767		
Interest rate spread ⁽⁴⁾			2.59 %			3.11 %
Net interest margin ⁽⁵⁾			3.15 %			3.48 %
Ratio of average interest-earning assets to average interest-bearing liabilities	120.63 %			124.48 %		

- (1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are not included in average loans.
- (2) Includes FHLB and Federal Reserve Bank of St. Louis membership stock and related cash dividends.
- (3) Includes average balances for fixed assets and BOLI of \$94.9 million and \$72.8 million, respectively, for the three-month period ended March 31, 2024, as compared to \$78.4 million and \$65.6 million, respectively, for the same period of the prior fiscal year.
- (4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Net interest margin represents annualized net interest income divided by average interest-earning assets.

[Table of Contents](#)

(dollars in thousands)	Nine-month period ended March 31, 2024			Nine-month period ended March 31, 2023		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest-earning assets:						
Mortgage loans ⁽¹⁾	\$ 2,987,446	\$ 124,547	5.56	\$ 2,486,600	\$ 88,679	4.76
Other loans ⁽¹⁾	700,343	39,516	7.52	564,178	24,609	5.82
Total net loans	3,687,789	164,063	5.93	3,050,778	113,288	4.95
Mortgage-backed securities	298,005	10,614	4.75	223,304	3,654	2.18
Investment securities ⁽²⁾	170,043	5,217	4.09	100,441	3,519	4.67
Other interest-earning assets	92,343	3,813	5.51	53,398	1,672	4.17
TOTAL INTEREST- EARNING ASSETS ⁽¹⁾	4,248,180	183,707	5.77	3,427,921	122,133	4.75
Other noninterest-earning assets ⁽³⁾	292,618	—	—	213,767	—	—
TOTAL ASSETS	<u>\$ 4,540,798</u>	<u>\$ 183,707</u>		<u>\$ 3,641,688</u>	<u>\$ 122,133</u>	
Interest-bearing liabilities:						
Savings accounts	\$ 349,328	\$ 4,796	1.83	\$ 285,276	\$ 1,190	0.56
NOW accounts	1,266,367	19,536	2.06	1,253,592	12,094	1.29
Money market accounts	421,212	9,825	3.11	357,777	5,018	1.87
Certificates of deposit	1,289,867	39,875	4.12	751,418	9,759	1.73
TOTAL INTEREST- BEARING DEPOSITS	3,326,774	74,032	2.97	2,648,063	28,061	1.41
Borrowings:						
Securities sold under agreements to repurchase	—	—	—	5,531	213	5
FHLB advances	131,062	3,978	4.05	101,669	2,300	3.02
Junior subordinated debt	23,124	1,309	7.55	23,074	1,033	5.97
TOTAL INTEREST- BEARING LIABILITIES	3,480,960	79,319	3.04	2,778,337	31,607	1.52
Noninterest-bearing demand deposits	568,126	—	—	493,618	—	—
Other liabilities	30,088	—	—	13,389	—	—
TOTAL LIABILITIES	4,079,174	79,319		3,285,344	31,607	
Stockholders' equity	461,624	—	—	356,344	—	—
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 4,540,798</u>	<u>\$ 79,319</u>		<u>\$ 3,641,688</u>	<u>\$ 31,607</u>	
Net interest income	\$ 104,388			\$ 90,526		
Interest rate spread ⁽⁴⁾			2.73 %		3.23 %	
Net interest margin ⁽⁵⁾			3.28 %		3.52 %	
Ratio of average interest-earning assets to average interest-bearing liabilities	122.04 %			123.38 %		

(1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are not included in average loans.

(2) Includes FHLB and Federal Reserve Bank of St. Louis membership stock and related cash dividends.

(3) Includes average balances for fixed assets and BOLI of \$93.8 million and \$72.3 million, respectively, for the nine-month period ended March 31, 2024, as compared to \$73.1 million and \$54.5 million, respectively, for the same period of the prior fiscal year.

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

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

Rate/Volume Analysis

The following tables set forth the effects of changing rates and volumes on the Company's net interest income for the three- and nine- month periods ended March 31, 2024, compared to the three- and nine- month periods ended March 31, 2023. Information is provided with respect to (i) effects on interest income and expense attributable to changes in volume (changes in volume multiplied by the prior rate), (ii) effects on interest income and expense attributable to change in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

(dollars in thousands)	Three-month period ended March 31, 2024					
	Compared to three-month period ended March 31, 2023					
	Increase (Decrease) Due to					
	Rate	Volume	Rate/ Volume	Net		
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$ 6,956	\$ 5,064	\$ 817	\$ 12,837		
Mortgage-backed securities	1,932	80	93	2,105		
Investment securities ⁽²⁾	(713)	559	(193)	(347)		
Other interest-earning deposits	357	630	157	1,144		
Total net change in income on interest-earning assets	8,532	6,333	874	15,739		
Interest-bearing liabilities:						
Deposits	9,200	2,525	2,591	14,316		
Securities sold under agreements to repurchase	(213)	(213)	213	(213)		
FHLB advances	39	1	—	40		
Subordinated debt	132	440	282	854		
Total net change in expense on interest-bearing liabilities	9,158	2,753	3,086	14,997		
Net change in net interest income	\$ (626)	\$ 3,580	\$ (2,212)	\$ 742		

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

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

(dollars in thousands)	Nine-month period ended March 31, 2024					
	Compared to nine-month period ended March 31, 2023					
	Increase (Decrease) Due to					
	Rate	Volume	Rate/ Volume	Net		
Interest-earning assets:						
Loans receivable ⁽¹⁾	\$ 22,212	\$ 23,801	\$ 4,762	\$ 50,775		
Mortgage-backed securities	4,299	1,222	1,439	6,960		
Investment securities ⁽²⁾	(437)	2,439	(304)	1,698		
Other interest-earning deposits	533	1,219	389	2,141		
Total net change in income on interest-earning assets	26,607	28,681	6,286	61,574		
Interest-bearing liabilities:						
Deposits	26,769	8,273	10,929	45,971		
Securities sold under agreements to repurchase	—	—	(213)	(213)		
FHLB advances	786	665	227	1,678		
Subordinated debt	274	2	—	276		
Total net change in expense on interest-bearing liabilities	27,829	8,940	10,943	47,712		
Net change in net interest income	\$ (1,222)	\$ 19,741	\$ (4,657)	\$ 13,862		

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

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

Results of Operations – Comparison of the three-month periods ended March 31, 2024 and 2023

General. Net income for the three-month period ended March 31, 2024, was \$11.3 million, an increase of \$8.9 million, or 369%, as compared to the same period of the prior fiscal year. The increase was attributable primarily to the Citizens merger-related charges that reduced earnings in the prior year period. The merger-related charges in the March 31, 2023, quarter included noninterest expense of \$3.3 million and PCL on the acquired loan portfolio and off-balance sheet credit exposures totaling \$7.0 million. Inclusive of these non-recurring charges, the increase in net income was the result of decreases in PCL and non-interest expense, and an increase in net interest income, partially offset by a decrease in non-interest income and an increase in provision for income taxes.

For the three-month period ended March 31, 2024, basic and fully-diluted net income per share available to common shareholders was \$1.00 and \$0.99, respectively, as compared to \$0.22 for both measures for the same period of the prior fiscal year, which represented increases of \$0.78, or 354.5% and \$0.77 or 350.0%, respectively. Our annualized return on average assets for the three-month period ended March 31, 2024, was 0.97%, as compared to 0.23% for the same period of the prior fiscal year. Our return on average common stockholders' equity for the three-month period ended March 31, 2024, was 9.5%, as compared to 2.3% in the same period of the prior fiscal year.

Net Interest Income. Net interest income for the three-month period ended March 31, 2024, was \$34.5 million, an increase of \$742,000, or 2.2%, as compared to the same period of the prior fiscal year. The increase was attributable to a 12.8% increase in the average balance of interest-earning assets in the current three-month period compared to the same period a year ago, partially offset by a decrease of 33 basis points in the net interest margin to 3.15%. The primary driver of the net interest margin decline, compared to the year ago period, was the yield on interest earning assets increasing 87 basis points, while the cost of interest-bearing liabilities increased 139 basis points.

Loan discount accretion and deposit premium amortization related to the Company's June 2017 acquisition of Capaha Bank, the February 2018 acquisition of Southern Missouri Bank of Marshfield, the November 2018 acquisition of First Commercial Bank, the May 2020 acquisition of Central Federal Savings & Loan Association, the February 2022 merger of Fortune, and the January 2023 acquisition of Citizens resulted in \$1.2 million in net interest income for the three-month period ended March 31, 2024, as compared to \$1.4 million in net interest income for the same period a year ago. Combined, this component of net interest income contributed 11 basis points to net interest margin in the three-month period ended March 31, 2024, as compared to a 14 basis point contribution for the same period of the prior fiscal year, and as compared to a 14 basis point contribution in the linked quarter, ended December 31, 2023, when net interest margin was 3.25%.

Provision for Credit Losses. The PCL for the three-month period ended March 31, 2024, was a charge of \$900,000, as compared to a PCL of \$10.1 million in the same period of the prior fiscal year. The current period PCL was the result of a \$1.4 million provision attributable to the ACL for loan balances outstanding, partially offset by a recovery of \$458,000 in provision attributable to the allowance for off-balance sheet credit exposures, as construction draws reduced available credit and increased on-balance sheet exposure. The comparable period PCL was elevated primarily due to the Citizens merger. The Company's assessment of the economic outlook was little changed as compared to the assessment as of March 31, 2023, but reserves were modestly increased due to individually evaluated credits, slightly expanding the ACL as a percentage of total loans. As a percentage of average loans outstanding, the Company recorded net charge offs of one basis point (annualized) during the current period, unchanged from the same period of the prior fiscal year. (See "Critical Accounting Policies", "Allowance for Credit Loss Activity" and "Nonperforming Assets").

Noninterest Income. Noninterest income for the three-month period ended March 31, 2024, was \$5.6 million, a decrease of \$700,000, or 11.1%, as compared to the same period of the prior fiscal year. The decrease was attributable to recognized losses on the sale of AFS securities, which totaled \$807,000 in the current quarter, with no AFS gains or losses recognized in the same quarter a year ago, along with lower other noninterest income deposit account charges and related fees, and bank card interchange income. These items were partially offset by increased wealth management fees, other loan fees, and earnings on bank owned life insurance.

Noninterest Expense. Noninterest expense for the three-month period ended March 31, 2024, was \$25.0 million, a decrease of \$1.9 million, or 7.2%, as compared to the same period of the prior fiscal year. The decrease as compared to the year-ago period was primarily attributable to charges directly related to merger and acquisition activities, which totaled \$3.3 million in the year-ago period from the Citizens acquisition, with no material charges in the current period. Direct charges related to merger and acquisition activity in the year-ago period were primarily legal and professional fees, data processing fees (including contract termination and data conversion fees), compensation expenses, marketing activities, and other miscellaneous merger operating expenses. Partially offsetting these decreases from the prior year period were increases in occupancy and equipment, deposit insurance premiums, advertising, and intangible amortization. Occupancy and equipment expenses increased due to additional facilities and equipment; maintenance and remodels; and associated depreciation expenses, reflecting the additional facilities resulting from the Citizens merger. The increase in deposit insurance premiums was primarily due to the increase in deposits compared to the same period of the prior year. Advertising enhancements in the current quarter increased marketing expenses compared to the March 31, 2023 quarter. Lastly, compared to the same period last year, intangible amortization expense increased as last year's same period only included two months following the Citizens acquisition.

Income Taxes. The income tax provision for the three-month period ended March 31, 2024, was \$2.8 million, an increase of 390.8%, as compared to the same period of the prior fiscal year. The increase was primarily attributed to higher pre-tax earnings after the acquisition of Citizens.

Results of Operations – Comparison of the nine-month periods ended March 31, 2024 and 2023

General. Net income for the nine-month period ended March 31, 2024, was \$36.7 million, an increase of \$13.0 million, or 54.8% as compared to the same period of the prior fiscal year. Compared to the year-ago period, the Company's increase in net income was attributable to an increase in net interest income and a lower PCL that was partially offset by increased noninterest expense, an increase in provision for income taxes, and slightly lower noninterest income.

For the nine-month period ended March 31, 2024, basic and fully-diluted net income per share available to common shareholders was \$3.23 and 3.22, respectively, as compared to \$2.42 and \$2.41, respectively for the same period of the prior fiscal year, which represented increases of \$0.81, or 33.6% under both measures. Our annualized return on average assets for the nine-month period ended March 31, 2024, was 1.08%, as compared to 0.87% for the same period of the prior fiscal year. Our return on average common stockholders' equity for the nine-month period ended March 31, 2024, was 10.6%, as compared to 8.9% in the same period of the prior fiscal year.

Net Interest Income. Net interest income for the nine-month period ended March 31, 2024, was \$104.4 million, an increase of \$13.9 million, or 15.3%, as compared to the same period of the prior fiscal year. The increase was attributable to a 23.9% increase in the average balance of interest-earning assets, partially offset by a decrease in the net interest margin to 3.28%, as compared to 3.52% in the same period a year ago. The decrease in net interest margin was attributable to a 152 basis point increase in the average cost of interest-bearing liabilities, which was partially offset by a 102 basis point increase in the average yield on interest-earning assets. The increase in the cost of funding was due to savings and CD specials that were offered over recent periods in a competitive deposit environment.

Loan discount accretion and deposit premium amortization related to the Company's May 2020 acquisition of Central Federal Savings & Loan Association, the February 2022 merger of Fortune, and the January 2023 acquisition of Citizens, resulted in \$4.4 million in net interest income for the nine-month period ended March 31, 2024, as compared to \$2.4 million in net interest income for the same period a year ago. Combined, this component of net interest income contributed 14 basis points to net interest margin in the nine-month period ended March 31, 2024, as compared to a nine basis point contribution for the same period of the prior fiscal year.

Provision for Credit Losses. The PCL for the nine-month period ended March 31, 2024, was a charge of \$2.7 million, as compared to \$16.3 million in the same period of the prior fiscal year. Compared to the year ago period, the Company's loan growth over the fiscal year to date was reduced along with lower unfunded loan commitments, requiring less PCL, and the prior period included a \$7.0 million PCL on the acquired loan portfolio and off-balance sheet credit exposures of Citizens, with no such similar acquisition in the current year period. The Company's assessment of

the economic outlook was little changed as compared to the assessment as of March 31, 2023, but reserves were modestly increased due to individually evaluated credits, slightly expanding the ACL as a percentage of total loans. As a percentage of average loans outstanding, the Company recorded net charge offs of approximately five basis point (annualized) during both the current period and the same period of the prior fiscal year. (See "Critical Accounting Policies", "Allowance for Credit Loss Activity" and "Nonperforming Assets").

Noninterest Income. Noninterest income for the nine-month period ended March 31, 2024, was \$17.1 million, a decrease of \$177,000, or 1.0%, as compared to the same period of the prior fiscal year. In the current period, increases in wealth management, bank card interchange income, and earnings on bank owned life insurance (BOLI), were more than offset by realized losses on the sale of AFS securities, as well as lower other income, other loan fees, deposit account charges, and loan servicing fees. Wealth management has benefitted from higher assets under management, and BOLI earnings have improved due mostly to increased investments in policies, both attributable primarily to the Citizens merger; and interchange income has had higher volume year to date, driving fee income growth. These increases were more than offset by the \$1.5 million realized losses in the investment portfolio and inclusion in the prior-year period of a one-time gain on the sale of fixed assets of \$317,000, resulting in lower other income in the current fiscal year. Other loan fees were down due to the decrease in loan origination volume, and lower originations of residential real estate loans specifically also resulted in declining recognition of new mortgage servicing rights. Deposit account charges and related fees have decreased due to changes adopted in July 2023 as to how fees are assessed on NSF items.

Noninterest Expense. Noninterest expense for the nine-month period ended March 31, 2024, was \$72.6 million, an increase of \$11.1 million, or 18.0%, as compared to the same period of the prior fiscal year. The increase was attributable primarily to increases in compensation and benefits, occupancy expenses, data processing fees, intangible amortization, and deposit insurance premiums, partially offset by a decrease in legal and professional fees. The increase in compensation and benefits as compared to the prior year period was primarily due to increased headcount resulting from the Citizens merger, an increase in legacy employee headcount, as well as annual merit increases and inflation adjustments. Occupancy expenses increased primarily due to facilities added through the Citizens merger, and other equipment purchases. The Company's increase in data processing costs relates to the growing volume of transaction activity, increased costs of software licensing, and new programs for lending and wealth management. Intangible amortization also increased due to the Citizens merger. Increased deposit insurance premiums were primarily due to the increase in the assessment base following the Citizens merger as well as the FDIC's increased base assessment rates effective January 2023. Charges related to merger and acquisition activities were \$98,000 in the current period, as compared to charges in the year ago period totaling \$4.1 million reflected in data processing, legal and professional fees.

Income Taxes. The income tax provision for the nine-month period ended March 31, 2024, was \$9.5 million, an increase of \$3.2 million, or 51%, as compared to the same period of the prior fiscal year, due primarily to higher pre-tax income. The increase was primarily attributed to higher pre-tax earnings after the acquisition of Citizens.

Allowance for Credit Loss Activity

The Company regularly reviews its ACL and makes adjustments to its balance based on management's estimate of (1) the total expected losses included in the Company's financial assets held at amortized cost, which is limited to the Company's loan portfolio, and (2) any credit deterioration in the Company's available-for-sale securities as of the balance sheet date. The Company holds no securities classified as held-to-maturity.

Although the Company maintains its ACL at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the ACL is subject to review by regulatory agencies, which can order the Company to record additional allowances. The required ACL has been estimated based upon the guidelines in ASC Topic 326, Financial Instruments – Credit Losses.

The estimate involves consideration of quantitative and qualitative factors relevant to loans as segmented by the Company, and is based on an evaluation, at the reporting date, of historical loss experience, coupled with qualitative adjustments to address current economic conditions and credit quality, and reasonable and supportable forecasts. Specific qualitative factors considered include, but may not be limited to:

- Changes in lending policies and/or loan review system
- National, regional, and local economic trends and/or conditions
- Changes and/or trends in the nature, volume, or terms of the loan portfolio
- Experience, ability, and depth of lending management and staff
- Levels and/or trends of delinquent, non-accrual, problem assets, or charge offs and recoveries
- Concentrations of credit
- Changes in collateral values
- Agricultural economic conditions
- Risks from regulatory, legal, or competitive factors

The following table summarizes changes in the ACL over the three- and nine- month periods ended March 31, 2024 and 2023:

(dollars in thousands)	For the three months ended		For the nine months ended	
	March 31,		March 31,	
	2024	2023	2024	2023
Balance, beginning of period	\$ 50,084	\$ 37,483	\$ 47,820	\$ 33,192
Initial ACL on PCD loans		1,121		1,121
Loans charged off:				
Residential real estate	(1)	—	(133)	(2)
Construction	—	—	(289)	—
Commercial business	(65)	—	(249)	(17)
Commercial real estate	—	—	(496)	(245)
Consumer	(48)	(113)	(263)	(189)
Gross charged off loans	(114)	(113)	(1,430)	(453)
Recoveries of loans previously charged off:				
Residential real estate	—	—	—	1
Construction	—	—	—	—
Commercial business	3	—	9	—
Commercial real estate	—	—	18	6
Consumer	5	9	69	18
Gross recoveries of charged off loans	8	9	96	25
Net charge offs	(106)	(104)	(1,334)	(428)
Provision charged to expense	1,358	7,185	4,850	11,800
Balance, end of period	\$ 51,336	\$ 45,685	\$ 51,336	\$ 45,685

Our ACL at March 31, 2024, totaled \$51.3 million, representing 1.36% of gross loans and 693% of nonperforming loans, as compared to an ACL of \$47.8 million, representing 1.32% of gross loans and 625% of nonperforming loans at June 30, 2023. The Company's assessment of the economic outlook was little changed as compared to the assessment as of June 30, 2023, but reserves were modestly increased due to qualitative factors and individually evaluated credits, slightly expanding the ACL as a percentage of total loans. For the nine-month period ended March 31, 2024, the ACL

[Table of Contents](#)

was increased by \$3.5 million and the allowance for off-balance sheet credit exposures had a recovery of \$2.1 million, reflecting a net PCL of \$2.7 million and net charge offs of \$1.3 million.

For the three-month period ended March 31, 2024, the ACL increased by \$1.3 million and the allowance for off-balance sheet credit exposures decreased by \$458,000, as compared to the linked quarter ended December 31, 2023, reflecting a PCL of \$900,000, and net charge offs of \$106,000.

At March 31, 2024, the Bank also had accrued within other liabilities an allowance for off-balance sheet credit exposures of \$4.1 million, as compared to \$6.3 million at June 30, 2023. The decrease reflects the component of the PCL attributable to off-balance sheet credit exposures noted above. This amount is maintained as a separate liability account to cover estimated credit losses associated with off-balance sheet credit instruments such as off-balance sheet loan commitments, standby letters of credit, and guarantees. The \$2.1 million decrease in the estimated allowance for off-balance sheet credit exposures was primarily the result of a decrease in the amount of unfunded commitments (unused lines of credit) available and expected to be utilized.

The PCL was based on the estimated required ACL, reflecting management's estimate of the current expected credit losses in the Company's loan portfolio at March 31, 2024, and management believes the ACL as of that date was adequate based on that estimate. There remains, however, significant uncertainty as the Federal Reserve tightens monetary policy to address inflation risks. Management continues to closely monitor borrowers in the hotel industry that were slow to recover from the COVID-19 pandemic.

The following table sets forth the sum of the amounts of the ACL attributable to individual loans within each category, or the loan categories in general, and the percentage of the ACL that is attributable to each category, as of the reporting date. The table also reflects the percentage of loans in each category to the total loan portfolio, as of the reporting date.

	ACL as of March 31, 2024	% of total ACL	ACL as of June 30, 2023	% of total ACL
Real Estate Loans:				
Residential	\$ 15,357	29.9 %	\$ 15,641	32.7 %
Construction	2,347	4.6 %	2,664	5.6 %
Commercial	26,610	51.8 %	22,838	47.8 %
Consumer loans	900	1.8 %	909	1.8 %
Commercial loans	6,122	11.9 %	5,768	12.1 %
	\$ 51,336	100.0 %	\$ 47,820	100.0 %

For loans that do not exhibit similar risk characteristics, the Company evaluates the loan on an individual basis. Loans that are classified with an adverse internal credit rating or identified as modifications to borrowers experiencing financial difficulty are most commonly considered for individual evaluation. The ACL for individually evaluated loans may be estimated based on the fair value of the underlying collateral, or based on the present value of expected cash flows.

At March 31, 2024, the Company had loans of \$43.3 million, or 1.15% of total loans, adversely classified (\$43.3 million classified "substandard"; none classified "doubtful"), as compared to loans of \$46.3 million, or 1.28% of total loans, adversely classified (\$46.3 million classified "substandard"; none classified "doubtful") at June 30, 2023, and \$46.9 million, or 1.35% of total loans, adversely classified (\$46.9 million classified "substandard"; none classified "doubtful"), at March 31, 2023. Classified loans were generally comprised of loans secured by commercial and residential real estate, and other commercial purpose collateral. All loans were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt. Of our classified loans, the Company had ceased recognition of interest on loans with a carrying value of \$7.3 million at March 31, 2024. The Company's total past due loans decreased from \$10.7 million at June 30, 2023, to \$8.6 million at March 31, 2024. Total past due loans were \$7.4 million at March 31, 2023. See Note 4 – "Loans and Allowance for Credit Losses – Past Due Loans" in the Notes to Consolidated Financial Statements.

Nonperforming Assets

The ratio of nonperforming assets to total assets and nonperforming loans to net loans receivable is another measure of asset quality. Nonperforming assets of the Company include nonaccruing loans, accruing loans delinquent/past maturity 90 days or more, and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. The table below summarizes changes in the Company's level of nonperforming assets over selected time periods:

	March 31, 2024	June 30, 2023	March 31, 2023
Nonaccruing loans:			
Residential real estate	\$ 1,416	\$ 934	\$ 1,175
Construction	—	698	368
Commercial real estate	3,250	4,564	4,741
Consumer	674	256	183
Commercial business	1,989	1,091	930
Total	7,329	7,543	7,397
Loans 90 days past due accruing interest:			
Residential real estate	81	109	—
Construction	—	—	—
Commercial real estate	—	—	—
Consumer	—	—	—
Commercial business	—	—	—
Total	81	109	—
Total nonperforming loans	7,410	7,652	7,397
Nonperforming investments	—	—	—
Foreclosed assets held for sale:			
Real estate owned	3,791	3,606	5,258
Other nonperforming assets	60	32	25
Total nonperforming assets	\$ 11,261	\$ 11,290	\$ 12,680

The Company adopted ASU No. 2022-02 in fiscal 2024, which eliminates the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. At March 31, 2024, modifications to borrowers experiencing financial difficulty totaled \$25.7 million, of which \$899,000 was considered nonperforming and included in the nonaccrual loan total above. The remaining \$24.8 million in modified loans have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans. On the basis of guidance under ASU No. 2022-02, in general, these loans were subject to classification as modifications due to term extensions, with only \$235,000 being due to payment delay, given to borrowers experiencing financial difficulty at March 31, 2024. At June 30, 2023, these modifications totaled \$30.5 million, of which \$727,000 was considered nonperforming and included in the nonaccrual loan total above. The remaining \$29.8 million in modifications at June 30, 2023, had complied with the modified terms for a reasonable period of time and were therefore considered by the Company to be accrual status loans.

At both March 31, 2024, and June 30, 2023, the nonperforming assets totaled \$11.3 million, and at March 31, 2023, they totaled \$12.7 million. The decrease in NPAs as compared to March 31, 2023, was due to the decrease in other real estate owned.

Liquidity Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loans purchases, deposit withdrawals and operating expenses. Our primary sources of funds include deposit growth, FHLB advances, brokered deposits, amortization and prepayment of loan principal and interest, investment maturities and sales, and funds provided by our operations. While the scheduled loan repayments and maturing investments are relatively predictable, deposit flows, FHLB advance redemptions, and loan and security prepayment rates are significantly influenced by factors outside of the Bank's control, including interest rates, general and local economic conditions and competition in the marketplace. The Bank relies on FHLB advances and brokered deposits as additional sources for funding cash or liquidity needs.

The Company uses its liquid resources principally to satisfy its ongoing cash requirements, which include funding loan commitments, funding maturing certificates of deposit and deposit withdrawals, maintaining liquidity, funding maturing or called FHLB advances, purchasing investments, and meeting operating expenses.

At March 31, 2024, the Company had outstanding commitments and approvals to extend credit of approximately \$853.6 million (including \$637.9 million in unused lines of credit) in mortgage and non-mortgage loans. These commitments and approvals are expected to be funded through existing cash balances, cash flow from normal operations and, if needed, advances from the FHLB or the Federal Reserve's discount window. At March 31, 2024, the Bank had pledged \$1.3 billion of its single-family residential and commercial real estate loan portfolios to the FHLB for available credit of approximately \$789.7 million, of which \$102.2 million was advanced, while an additional \$467,000 was encumbered in relation to residential real estate loans sold onto the secondary market through the FHLB. The Bank has the ability to pledge several other loan portfolios, including, for example, its commercial and home equity loans, which could provide additional collateral for additional borrowings. In total, FHLB borrowings are generally limited to 45% of bank assets, or approximately \$2.1 billion, subject to available collateral. Also, at March 31, 2024, the Bank had pledged a total of \$348.4 million in loans secured by farmland and agricultural production loans to the Federal Reserve, providing access to \$290.1 million in primary credit borrowings from the Federal Reserve's discount window, none of which was advanced at March 31, 2024. Management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Regulatory Capital

The Company and Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Furthermore, the Company's and Bank's regulators could require adjustments to regulatory capital not reflected in the condensed consolidated financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital (as defined), and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average total assets (as defined). Additionally, to make distributions or discretionary bonus payments, the Company and Bank must maintain a capital conservation buffer of 2.5% of risk-weighted assets. Management believes, as of March 31, 2024 and June 30, 2023, that the Company and the Bank met all capital adequacy requirements to which they are subject.

In August 2020, the Federal banking agencies adopted a final rule updating a December 2018 rule regarding the impact on regulatory capital of adoption of the CECL standard. The rule allows institutions that adopted the CECL standard in

[Table of Contents](#)

2020 a five-year transition period to recognize the estimated impact of adoption on regulatory capital. The Company and the Bank elected to exercise the option to recognize the impact of adoption over the five-year period.

As of March 31, 2024, the most recent notification from the Federal banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The tables below summarize the Company's and Bank's actual and required regulatory capital at the dates indicated:

As of March 31, 2024	To Be Well Capitalized Under Prompt Corrective Action Provisions					
	Actual		For Capital Adequacy Purposes			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 515,283	13.14 %	\$ 313,823	8.00 %	n/a	n/a
Southern Bank	484,637	12.52 %	309,714	8.00 %	387,142	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	458,612	11.69 %	235,367	6.00 %	n/a	n/a
Southern Bank	436,216	11.27 %	232,285	6.00 %	309,714	8.00 %
Tier I Capital (to Average Assets)						
Consolidated	458,612	9.88 %	185,672	4.00 %	n/a	n/a
Southern Bank	436,216	9.42 %	185,138	4.00 %	231,423	5.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	443,085	11.30 %	176,525	4.50 %	n/a	n/a
Southern Bank	436,216	11.27 %	174,214	4.50 %	251,643	6.50 %
As of June 30, 2023						
To Be Well Capitalized Under Prompt Corrective Action Provisions						
	Actual		For Capital Adequacy Purposes			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 481,236	12.52 %	\$ 307,528	8.00 %	n/a	n/a
Southern Bank	454,699	11.77 %	308,932	8.00 %	386,166	10.00 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	426,644	11.10 %	230,646	6.00 %	n/a	n/a
Southern Bank	407,764	10.56 %	231,699	6.00 %	308,932	8.00 %
Tier I Capital (to Average Assets)						
Consolidated	426,644	9.95 %	171,470	4.00 %	n/a	n/a
Southern Bank	407,764	9.54 %	170,942	4.00 %	193,083	5.00 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	411,196	10.70 %	172,985	4.50 %	n/a	n/a
Southern Bank	407,764	10.56 %	173,774	4.50 %	251,008	6.50 %

PART I: Item 3: Quantitative and Qualitative Disclosures About Market Risk

SOUTHERN MISSOURI BANCORP, INC.

Asset and Liability Management and Market Risk

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

In an effort to manage the interest rate risk resulting from fixed rate lending, the Bank has utilized longer term FHLB advances (with maturities up to ten years), subject to early redemptions and fixed terms. Other elements of the Company's current asset/liability strategy include (i) increasing originations of commercial business, commercial real estate, agricultural operating lines, and agricultural real estate loans, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk; (ii) actively soliciting less rate-sensitive deposits, including aggressive use of the Company's "rewards checking" product, and (iii) offering competitively-priced money market accounts and CDs with maturities of up to five years. The degree to which each segment of the strategy is achieved will affect profitability and exposure to interest rate risk.

The Company continues to originate long-term, fixed-rate residential loans. During the first nine months of fiscal year 2024, fixed rate 1- to 4-family residential loan production totaled \$90.7 million (of which \$16.3 million was originated for sale into the secondary market), as compared to \$97.2 million (of which \$12.7 million was originated for sale into the secondary market). At March 31, 2024, the fixed rate residential loan portfolio was \$609.2 million with a weighted average maturity of 180 months, as compared to \$592.5 million at March 31, 2023, with a weighted average maturity of 194 months. The Company originated \$37.0 million in adjustable-rate 1- to 4-family residential loans during the nine-month period ended March 31, 2024, as compared to \$32.1 million during the same period of the prior fiscal year. At March 31, 2024, fixed rate loans with remaining maturities in excess of 10 years totaled \$368.5 million, or 9.9% of net loans receivable, as compared to \$383.8 million, or 11.2% of net loans receivable at March 31, 2023. The Company originated \$124.3 million in fixed rate commercial and commercial real estate loans during the nine-month period ended March 31, 2024, as compared to \$477.9 million during the same period of the prior fiscal year. The Company also originated \$53.6 million in adjustable rate commercial and commercial real estate loans during the nine-month period ended March 31, 2024, as compared to \$119.4 million during the same period of the prior fiscal year. At March 31, 2024, adjustable-rate home equity lines of credit increased to \$71.6 million, as compared to \$65.9 million at March 31, 2023. At March 31, 2024, the Company's investment portfolio had an expected weighted-average life of 4.9 years, compared to 5.2 years at March 31, 2023. Effective duration of the portfolio indicates a stable price sensitivity of approximately 2.6% per 100 basis points movement in market rates at both March 31, 2024, and the year ago period. Management continues to focus on customer retention, customer satisfaction, and offering new products to customers in order to increase the Company's amount of less rate-sensitive deposit accounts.

Interest Rate Sensitivity Analysis

The following table sets forth as of March 31, 2024, management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous, permanent, and parallel increases, and 100, 200, and 300 basis point instantaneous, permanent, and parallel decreases in market interest rates. Dollar amounts are expressed in thousands.

March 31, 2024						
Change in Rates	Net Portfolio			NPV as Percentage of PV of Assets		
	Value	Change	(Dollars in thousands)	% Change	NPV Ratio	Change
+300 bp	\$ 368,622	\$ (106,619)	(106,619)	(22)	8.71	(179)
+200 bp	404,649	(70,592)	(70,592)	(15)	9.35	(115)
+100 bp	440,240	(35,001)	(35,001)	(7)	9.95	(55)
0 bp	475,241	—	—	—	10.50	—
-100 bp	496,699	21,458	21,458	5	10.75	25
-200 bp	495,377	20,136	20,136	4	10.54	4
-300 bp	480,235	4,994	4,994	1	10.07	(43)

June 30, 2023						
Change in Rates	Net Portfolio			NPV as Percentage of PV of Assets		
	Value	Change	(Dollars in thousands)	% Change	NPV Ratio	Change
+300 bp	\$ 259,599	\$ (114,765)	(114,765)	(31)	6.66	(226)
+200 bp	296,514	(77,850)	(77,850)	(21)	7.43	(149)
+100 bp	334,226	(40,138)	(40,138)	(11)	8.17	(75)
0 bp	374,364	—	—	—	8.92	—
-100 bp	426,243	51,879	51,879	14	9.91	99
-200 bp	480,345	105,981	105,981	28	10.95	203
-300 bp	518,672	144,307	144,307	39	11.64	272

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. As a result of an independent model review, some key drivers were updated in our NPV calculation to align more closely with industry standards and best practices. The results reflected in the NPV table above for March 31, 2024, are based on some assumptions which differ as compared to those utilized in our model at June 30, 2023, and comparison of the results may not reflect actual changes in underlying interest rate sensitivity. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Management cannot accurately predict future interest rates or their effect on the Bank's net present value NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to seven years and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolios could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Company's growth strategy has included origination of fixed-rate loans, as discussed under "Asset and Liability Management and Market Risk," above. This fixed rate loan portfolio and the behavior of fixed-rate borrowers in a higher interest rate environment, especially over the course of fiscal 2023, pressured our NPV. The Company's sensitivity, which generally increased over recent periods, was partially offset by the Citizens merger in the third quarter of fiscal

2023, as the acquired balance sheet included a higher percentage of rate sensitive assets, and also by continued new loan originations at higher market interest rates. Since June 30, 2023, market interest rates have increased, as noted in the "Executive Summary," negatively impacting our underlying NPV, attributable to the impact of higher rates on our longer-term fixed rate loans as of March 31, 2024. Due to updated model assumptions in fiscal 2024, discussed above, the above table comparing modeled results as of June 30, 2023, and March 31, 2024, does not fully illustrate these changes. The Company continues to manage its balance sheet to maximize earnings through interest rate cycles, while maintaining safe and sound risk management practices.

The Bank's board of directors is responsible for reviewing the Bank's asset and liability policies. The Bank's Asset/Liability Committee meets monthly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the board of directors with respect to the Bank's asset and liability goals and strategies.

PART I: Item 4: Controls and Procedures

SOUTHERN MISSOURI BANCORP, INC.

An evaluation of Southern Missouri's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the "Act")) as of March 31, 2024 was carried out under the supervision and with the participation of our Chief Executive Officer, our Chief Administrative Officer, our Chief Financial Officer, and several other members of our senior management. Our Chief Executive Officer, our Chief Administrative Officer, and our Chief Financial Officer concluded that, as of March 31, 2024, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to management (including our Chief Executive Officer, our Chief Administrative Officer and our Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II: Other Information

SOUTHERN MISSOURI BANCORP, INC.

Item 1: Legal Proceedings

In the opinion of management, the Company is not a party to any pending claims or lawsuits that are expected to have a material effect on the Company's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Company mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. Aside from such pending claims and lawsuits, which are incident to the conduct of the Company's ordinary business, the Company is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Company.

Item 1a: Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2023.

Item 2: Unregistered Sales of Equity Securities, Use of Proceeds, Issuer Purchases of Equity Securities

On May 20, 2021, the Company announced its intention to repurchase up to 445,000 shares of its common stock, or approximately 5.0% of its 8.9 million then-outstanding common shares. The shares will be purchased at prevailing market prices in the open market or in privately negotiated transactions, subject to availability and general market conditions. Repurchased shares will be held as treasury shares to be used for general corporate purposes.

The following table summarizes the Company's stock repurchase activity for each month during the three months ended March 31, 2024.

	Total # of Shares Purchased	Average Price Paid Per Share	Total # of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased ⁽¹⁾
01/01/24 - 01/31/24 period	—	\$ —	—	306,375
02/01/24 - 02/29/24 period	—	—	—	306,375
03/01/24 - 03/31/24 period	4,438	42.04	4,438	301,937

⁽¹⁾ Represents the remaining shares available for purchase as of the last calendar day of the month shown.

Item 3: Defaults upon Senior Securities

Not applicable

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

a. None

b. None

c. Trading Plans. During the quarter ended March 31, 2024, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a "Rule 10b5-1 trading arrangement," or "non-rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

[Table of Contents](#)

Item 6: Exhibits

Exhibit Number	Document
3.1(i)	Articles of Incorporation of the Registrant (filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1999 and incorporated herein by reference)
3.1(i)A	Amendment to Articles of Incorporation of Southern Missouri increasing the authorized capital stock of Southern Missouri (filed as an exhibit to Southern Missouri's Current Report on Form 8-K filed on November 21, 2016 and incorporated herein by reference)
3.1(i)B	Amendment to Articles of Incorporation of Southern Missouri increasing the authorized capital stock of Southern Missouri (filed as an exhibit to Southern Missouri's Current Report on Form 8-K filed on November 8, 2018 and incorporated herein by reference)
3.1(ii)	Certificate of Designation for the Registrant's Senior Non-Cumulative Perpetual Preferred Stock, Series A (filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 26, 2011 and incorporated herein by reference)
3.2	Bylaws of the Registrant (filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 6, 2007 and incorporated herein by reference)
4	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 2020 and incorporated herein by reference).
10	<p>Material Contracts:</p> <ol style="list-style-type: none"> 1. Registrant's 2017 Omnibus Incentive Plan (attached to the Registrant's definitive proxy statement filed on September 26, 2017, and incorporated herein by reference) 2. 2008 Equity Incentive Plan (attached to the Registrant's definitive proxy statement filed on September 19, 2008 and incorporated herein by reference) 3. 2003 Stock Option and Incentive Plan (attached to the Registrant's definitive proxy statement filed on September 17, 2003 and incorporated herein by reference) 4. 1994 Stock Option and Incentive Plan (attached to the Registrant's definitive proxy statement filed on October 21, 1994 and incorporated herein by reference) 5. Management Recognition and Development Plan (attached to the Registrant's definitive proxy statement filed on October 21, 1994 and incorporated herein by reference) 6. Employment Agreements <ul style="list-style-type: none"> (i) Employment Agreement with Greg A. Steffens (filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 2019 and incorporated herein by reference) (ii) Amended and Restated Employment Agreement with Greg A. Steffens (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, and incorporated herein by reference) 7. Director's Retirement Agreements <ul style="list-style-type: none"> (i) Director's Retirement Agreement with Sammy A. Schalk (filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 and incorporated herein by reference) (ii) Director's Retirement Agreement with L. Douglas Bagby (filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000 and incorporated herein by reference) (iii) Director's Retirement Agreement with Rebecca McLane Brooks (filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 and incorporated herein by reference) (iv) Director's Retirement Agreement with Charles R. Love (filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 and incorporated herein by reference) (v) Director's Retirement Agreement with Charles R. Moffitt (filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004 and incorporated herein by reference) (vi) Director's Retirement Agreement with Dennis C. Robison (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 and incorporated herein by reference) (vii) Director's Retirement Agreement with David J. Tooley (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011 and incorporated herein by reference)

		(viii) Director's Retirement Agreement with Todd E. Hensley (filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 2014 and incorporated herein by reference)
8.		Tax Sharing Agreement (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference)
9.		Change-in-Control Agreements
	(i)	Change-in-control Agreement with Kimberly A. Capps (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and incorporated herein by reference)
	(ii)	Change-in -Control Agreement with Matthew Funke (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and incorporated herein by reference)
	(iii)	Change-in-control Agreement with Justin G. Cox (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 and incorporated herein by reference)
	(iv)	Change-in-control Agreement with Rick A. Windes (filed as an exhibit to the Registrant's Current Report on Form 8-K for the event on March 25, 2022 and incorporated herein by reference)
	(v)	Change-in -Control Agreement with Mark Hecker (filed as an exhibit to the Registrant's Current Report on Form 8-K for the event on April 20, 2021 and incorporated herein by reference)
	(vi)	Change-in -Control Agreement with Brett Dorton (filed as an exhibit to the Registrant's Current Report on Form 8-K for the event on March 25, 2022 and incorporated herein by reference)
	(vii)	Change-in-Control Agreement with Lance Greunke (filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 and incorporated herein by reference)
10.		Named Executive Officer Salary and Bonus Arrangements for 2023 (filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended June 30, 2023 and incorporated herein by reference)
11.		Director Fee Arrangements for 2023 (filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended June 30, 2023 and incorporated herein by reference)
14		Code of Conduct and Ethics (filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended June 30, 2016 and incorporated herein by reference)
21		Subsidiaries of the Registrant (filed as an exhibit to Registrant's Annual Report on Form 10-K for the year ended June 30, 2023 and incorporated herein by reference)
31.1		Rule 13a-14(a) Certification of Chief Executive Officer
31.2		Rule 13a-14(a) Certification of Chief Administrative Officer
31.3		Rule 13a-14(a) Certification of Chief Financial Officer
32		Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101		Includes the following financial and related information from Southern Missouri Bancorp, Inc.'s Quarterly Report on Form 10-Q as of and for the quarter ended March, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Income, (3) the Consolidated Statements of Comprehensive Income, (4) the Consolidated Statements of Changes in Stockholders' Equity, (5) the Consolidated Statements of Cash Flows, and (6) Notes to Consolidated Financial Statements.
104		The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN MISSOURI BANCORP, INC.
Registrant

Date: May 10, 2024

/s/ Greg A. Steffens

Greg A. Steffens
Chairman & Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2024

/s/ Matthew T. Funke

Matthew T. Funke
President & Chief Administrative Officer
(Principal Financial Officer)

Date: May 10, 2024

/s/ Stefan Chkautovich

Stefan Chkautovich
Executive Vice President & Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATION

I, Greg A. Steffens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southern Missouri Bancorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the registrant 's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

By: /s/ Greg A. Steffens

Greg A. Steffens
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Matthew T. Funke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southern Missouri Bancorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the registrant 's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

By: /s/ Matthew T. Funke

Matthew T. Funke
President and Chief Administrative Officer
(Principal Financial Officer)

CERTIFICATION

I, Stefan Chkautovich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southern Missouri Bancorp, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the registrant 's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

By: /s/ Stefan Chkautovich

Stefan Chkautovich
Executive Vice President and Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in their capacity as an officer of Southern Missouri Bancorp, Inc. (the "Company") that the quarterly report of the Company on Form 10-Q for the quarter ended March 31, 2024 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: May 10, 2024

By: /s/ Greg A. Steffens

Greg A. Steffens
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2024

By: /s/ Matthew T. Funke

Matthew T. Funke
President and Chief Administrative Officer
(Principal Financial Officer)

Date: May 10, 2024

By: /s/ Stefan Chkautovich

Stefan Chkautovich
Executive Vice President & Chief Financial Officer
(Principal Accounting Officer)
