



March 9, 2009

Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General, Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Ste 1064
Washington, D.C. 20220
Via e-mail to SIGTARP.response@do.treas.gov

Dear Mr. Barofsky:

This letter is in response to your request for information dated February 6, 2009, pursuant to Southern Missouri Bancorp, Inc.'s participation in the U.S. Treasury's Capital Purchase Plan (CPP) implemented under the Troubled Asset Relief Program (TARP). Southern Missouri Bancorp, Inc. (the Company) received an investment of approximately \$9.6 million under the CPP. For your ease in identifying the applicability of our responses, we have included specific requests as headers, followed by our response. We consider the entirety of this response to be confidential, proprietary information.

1(a) – anticipated use of TARP funds:

In the Company's discussion of the CPP application with our banking subsidiary's primary federal regulator, the FDIC, we disclosed our intentions to use a portion of any CPP funds invested in the Company for the recapitalization of a small, troubled institution we were in negotiations to purchase. We planned to reserve approximately \$5.5 million of our CPP funding for that purpose.

In our internal discussions with our board of directors regarding the remaining CPP funds, we were approved to participate in the program based on our intention to leverage agency mortgage-backed securities purchases in order to offset the cost of the capital, providing some liquidity to a troubled credit market. Additionally, we discussed the use of CPP funding to improve our capital ratios, without shrinking our balance sheet, in a time of economic uncertainty, and using CPP funding to support continued loan growth.

In the Company's press release announcing participation in the CPP, we stated, "the Company elected to participate in the program given the uncertain economic outlook, the relatively attractive cost of capital compared to the current market, and the strategic opportunities the Company foresees regarding potential uses of the capital. The additional capital will increase the Company's already well-capitalized position."

1(b) – whether the TARP funds were segregated from other institutional funds:

Of the CPP funds invested, \$4 million was invested in the banking subsidiary. This investment was not segregated from other working capital in the bank. The remaining \$5.6 million has been retained at the Company level for use in the currently proposed purchase and recapitalization of a small, troubled financial institution.

1(c) – actual use of TARP funds:

We invested \$4 million of our TARP proceeds in our banking subsidiary, in order to support investment and loan growth, and to improve the bank's capital position, without shrinking our balance sheet, in the current uncertain economic environment.

We have continued to reserve approximately \$5.5 million of our TARP funding for the purpose of recapitalizing a small, troubled financial institution we were in negotiations to purchase. Those negotiations are now concluded; we have reached an agreement in principal with the target and are working on a definitive agreement. This transaction has the full support of the target institution's regulators, based on the weakened financial condition of the institution.

In our earnings release of February 11, 2009, the Company stated: "The Treasury Department created the Capital Purchase Program with the intention of building capital at U.S. financial institutions in order to increase the flow of financing to U.S. businesses and consumers, and to support the U.S. economy. As of December 31, 2008, the Company has increased loan balances by \$8.2 million in the current fiscal year, and by \$31.6 million over the last twelve months. Additionally, the Company has contributed to the accomplishment of that objective by leveraging the Treasury's investment to support the purchase of \$15 million in agency-backed collateralized mortgage obligations (CMOs) and \$4.5 million in municipal debt, helping to improve the availability of credit in two distressed markets. These are investments that the Company would not likely have made, absent the Treasury investment. Including both investment securities and direct loans, the Company has increased its investment in credit markets by \$52.6 million over the last twelve months.

In our December 31, 2008, quarterly SEC filing on Form 10-Q, the Company stated: "During the first six months of fiscal 2009, we grew our balance sheet by \$35.4 million; this above-trend growth was due to the leveraged use of \$9.6 million in preferred capital invested by the U.S. Treasury Department under the terms of their Capital Purchase Program. This additional growth primarily reflected an \$18.4 million increase in available-for-sale investments, an \$8.2 million increase in total net loans, a \$28.6 million increase in borrowed funds, and a \$6.2 million decrease in deposits."

1(d) – expected use of unspent TARP funds:

We are of the opinion that CPP funding should be viewed as capital to support balance sheet growth (or to prevent balance sheet shrinkage), not as cash flow to be "spent". As mentioned previously, \$4 million in CPP funds were invested in our banking subsidiary to support loan and investment growth. Additionally, \$5.6 million is reserved for the support of a small, troubled financial institution we anticipate acquiring within the next few months.

2 – plans to address executive compensation requirements associated with funding:

Southern Missouri had no compensation plans or agreements which required modification to meet terms included with the original funding agreement with Treasury.

Prior to closing the CPP transaction, our Compensation Committee of the Board of Directors reviewed our incentive bonus arrangements and concluded that they do not encourage officers to take excessive risk.

In addition, each senior executive officer (SEO) has signed a Compensation Modification Agreement, the form of which is attached, reflecting the SEO's and Company's understanding that if any compensation arrangement is subsequently deemed to be excessive or otherwise not compliant with TARP provisions, they may be modified in order to comply.

Based on legislation passed subsequent to our participation in the CPP, Southern Missouri is now prohibited from making bonus payments to our Chief Executive Officer. Given the Company's earnings performance, asset quality, and strategic accomplishments, a bonus would have likely been awarded for the 2009 fiscal year (ending June 30, 2009). In lieu of a bonus, however, the Company will review alternative means of remuneration, including long-term restricted stock.

We hope that this information has been helpful in your effort to report on bank's use of funds from the CPP. Please do not hesitate to contact me if I may be of further assistance.

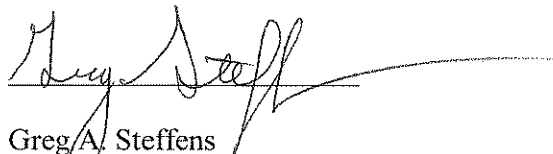
Sincerely,



Greg A. Steffens
President & CEO

Enclosure
mtf

I, Greg A. Steffens, certify that: I have reviewed this response and supporting documents, and based on my knowledge, this response and the supporting documents do 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 statements were made, not misleading.



Greg A. Steffens
President & CEO

COMPENSATION MODIFICATION AGREEMENT

THIS AGREEMENT (“Agreement”), made this 5th day of December, 2008, by and between Southern Missouri Bancorp, Inc., Southern Missouri Bank & Trust Co., its wholly owned subsidiary, (together, the “Corporation”) and William Aslin, a senior executive officer of the Corporation (“Executive”).

WHEREAS, the Corporation has determined that it is in the best interests of the Corporation and its stockholders to participate in the Treasury TARP CPP program (“CPP”), under which, the Corporation will issue preferred stock and warrants to purchase Corporation common stock to the United States Treasury (“UST”) in return for cash; and

WHEREAS, in order for the Corporation to participate in the CPP, the Corporation and its senior executive officers subject to the Compensation Guidelines (“SEOs”) must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance and the related UST interim final regulations (31 CFR Part 30) published in the Federal Register on October 20, 2008 (the “Compensation Guidelines”); and

WHEREAS, the Corporation is required to deliver a certificate to the UST at the closing of the CPP transaction that it has complied with all the Compensation Guidelines; and

WHEREAS, the board of directors of the Corporation has authorized and directed the Compensation Committee to take any and all the actions required under the Compensation Guidelines in order to enable the Corporation to deliver that certificate and authorized each member of the Compensation Committee to execute this Agreement on behalf of the Corporation; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, is required to review the Corporation’s compensation plans and policies with senior risk officers in order to identify and unilaterally eliminate any bonus plans or other incentive compensation arrangements for SEOs that encourage them to take unnecessary and excessive risks that threaten the value of the financial institution; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, must adopt appropriate provisions for the recovery by the Corporation of any bonus or incentive compensation paid to a senior executive officer (as defined under the Compensation Guidelines) based on financial statements or performance metric criteria later determined to be materially inaccurate; and

WHEREAS, in order to comply with the Compensation Guidelines as long for so UST holds securities of the Corporation acquired in the CPP, the Corporation is prohibited from making any golden parachute payment (as defined under the Compensation Guidelines) to any SEO; and

WHEREAS, the Corporation is required to deliver to the UST in connection with the consummation of the CPP transaction a waiver from each of its SEOs with respect to the changes in the Corporation's compensation plans, polices and practices as required by the Compensation Guidelines; and

WHEREAS, the Compensation Committee has asked Executive to execute the waiver in the form attached; and

WHEREAS, the Executive believes the requirements imposed under the Compensation Guidelines in order for the Corporation to obtain government funds by participating in the CPP are reasonable and in the best interests of the Corporation and its stockholders and furthers the long term best interests of the Corporation and its SEOs, including the Executive.

NOW, THEREFORE, to allow the Corporation to participate in the CPP for the mutual benefit of the Corporation, its stockholders and Executive, and for other good and valuable consideration, the Corporation and the Executive hereby agree as follows:

1. GENERAL MODIFICATION OF EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, the Corporation and Executive agree that, notwithstanding any contract, plan, policy or agreement to the contrary, all employment, compensation and benefit agreements, plans and policies with respect to Executive shall be deemed modified to comply in all respects with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues preferred stock and warrants to the UST. The Corporation and Executive further agree that the Corporation shall not adopt any new benefit plan with respect to Executive that does not comply with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues preferred stock and warrants to the Treasury. The Executive agrees that the Corporation, through its Compensation Committee, has the sole discretion: (a) to determine whether and to what extent any bonus or incentive compensation with respect to the Executive encourages the Executive to take unnecessary and excessive risks that threaten the value of the financial institution, and (b) to eliminate any such compensation as long as UST holds securities of the Corporation acquired in the CPP.

2. RECOVERY OF INCENTIVE COMPENSATION: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, in the event Executive receives a bonus or any other incentive compensation from the Corporation based on financial statements or performance metric criteria later

determined by the Corporation's Compensation Committee, in its sole discretion, to be materially inaccurate, Executive agrees to repay the Corporation, in cash and within 30 days of a written demand therefore, the amount of the bonus or incentive compensation received by Executive in excess of the amount that would have been paid to Executive had the inaccurate statements or criteria been accurate.

3. GOLDEN PARACHUTE PAYMENTS: Until such time as the UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, Executive agrees that: (a) the Executive shall not be entitled to receive any golden parachute payment (as defined under the Compensation Guidelines) upon Executive's severance from employment (as defined under the Compensation Guidelines) and (b) that all applicable contracts and agreements between Executive and the Corporation are deemed to be amended in this regard.

4. WAIVER: **Executive hereby voluntarily waives any claim against the Corporation for any changes to my compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including golden parachute agreements) that are required to comply with the Compensation Guidelines and that are made pursuant to this Agreement. This waiver includes all claims Executive may have under the laws of the United States or any state related to the requirements imposed by the Compensation Guidelines, including, without limitation, a claim for any compensation or other payments Executive would otherwise receive. Executive agrees to execute the required waiver in the form attached hereto and deliver said warrant to the Corporation no later than the close of business on December 5, 2008.**

5. COVERED EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Executive acknowledges that the employment, compensation and benefit agreements, plans and policies applicable to Executive that are listed in Annex A hereto are all subject to the modifications and amendments provided for in this Agreement, to the extent applicable.

6. MODIFICATION - WAIVERS - APPLICABLE LAW: No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by the Executive and on behalf of the Corporation by such officer as may be specifically designated by the Board of Directors of the Corporation. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by federal law, to the extent applicable, and otherwise by the laws of the State of Missouri.

7. INVALIDITY - ENFORCEABILITY: The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8. HEADINGS: Descriptive headings contained in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision in this Agreement.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

EXECUTIVE

Signature

Print Name

**SOUTHERN MISSOURI BANCORP,
INC.**

By: _____
Chairman, Compensation Committee

**SOUTHERN MISSOURI BANK &
TRUST CO.**

By: _____
Chairman, Compensation Committee