GREAT SOUTHERN BANCORP INC
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended June 30, 2006

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**43-1524856**
(State of Incorporation)	(IRS Employer Identification Number)
1451 E. Battlefield, Springfield, Missouri	**65804**
(Address of Principal Executive Offices)	(Zip Code)

(417) 887-4400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer / / Accelerated Filer /X/ Non-Accelerated Filer / /

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

Yes / / No /X/

The number of shares outstanding of each of the registrant's classes of common stock: 13,667,783 shares of common stock, par value $.01, outstanding at August 3, 2006.

NEXT PAGE

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except number of shares)

	June 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Cash	$ 137,349	$ 116,578
Interest-bearing deposits in other financial institutions	1,634	1,154
Cash and cash equivalents	138,983	117,732
Available-for-sale securities	367,686	369,316
Held-to-maturity securities (fair value $1,530 - June 2006; $1,603 - December 2005)	1,470	1,510
Mortgage loans held for sale	2,469	2,124
Loans receivable, net of allowance for loan losses of $25,531 - June 2006; $24,549 - December 2005	1,651,447	1,512,046
Interest receivable	12,263	10,841
Prepaid expenses and other assets	13,759	13,266
Foreclosed assets held for sale, net	1,081	595
Premises and equipment, net	25,887	27,265
Goodwill and other intangible assets	1,353	1,402
Investment in Federal Home Loan Bank stock	12,772	11,857
Deferred income taxes	14,990	13,201
Total Assets	$ 2,244,160	$ 2,081,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,709,331	$ 1,550,253
Federal Home Loan Bank advances	192,754	203,435
Short-term borrowings	132,316	133,558
Subordinated debentures issued to capital trust	17,663	18,059
Accrued interest payable	5,287	4,615
Advances from borrowers for taxes and insurance	877	233
Accounts payable and accrued expenses	25,626	17,494
Income taxes payable	829	706
Total Liabilities	2,084,683	1,928,353

Stockholders' Equity:		
Capital stock		
Serial preferred stock, $.01 par value;		
authorized 1,000,000 shares; none issued	--	--
Common stock, $.01 par value; authorized 20,000,000 shares; issued and		
outstanding June 2006 - 13,667,175 shares; December 2005 -		
13,722,801 shares	137	137
Additional paid-in capital	18,076	17,781
Retained earnings	147,531	138,921
Accumulated other comprehensive income (loss)	(6,267)	(4,037)
Total Stockholders' Equity	159,477	152,802
Total Liabilities and Stockholders' Equity	$ 2,244,160	$ 2,081,155

See Notes to Consolidated Financial Statements

NEXT PAGE

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	THREE MONTHS ENDED June 30,		SIX MONTHS ENDED June 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	$ 32,914	$ 23,236	$ 62,715	$ 44,181
Investment securities and other	4,314	4,302	8,710	8,358
TOTAL INTEREST INCOME	37,228	27,538	71,425	52,539
INTEREST EXPENSE				
Deposits	16,022	10,010	29,779	18,635
Federal Home Loan Bank advances	2,352	2,100	4,384	3,856
Short-term borrowings	1,414	1,179	2,905	2,260
Subordinated debentures issued to capital trust	317	235	602	445
TOTAL INTEREST EXPENSE	20,105	13,524	37,670	25,196
NET INTEREST INCOME	17,123	14,014	33,755	27,343
PROVISION FOR LOAN LOSSES	1,425	975	2,750	1,875
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,698	13,039	31,005	25,468

NONINTEREST INCOME				
Commissions	2,482	2,315	5,024	4,560
Service charges and ATM fees	3,720	3,424	7,033	6,416
Net realized gains on sales of loans	260	263	473	438
Net realized gains (losses) on sales of available-for-sale securities	(29)	(3)	(29)	(23)
Net gain (loss) on sales of fixed assets	8	2	157	(10)
Late charges and fees on loans	237	209	1,016	453
Change in interest rate swap fair value net of change in hedged deposit fair value	460	--	282	--
Change in interest rate swap fair value	--	5,525	--	982
Interest rate swap net settlements	--	1,145	--	2,727
Other income	303	216	608	450
TOTAL NONINTEREST INCOME	7,441	13,096	14,564	15,993
NONINTEREST EXPENSE				
Salaries and employee benefits	7,169	6,206	14,150	12,355
Net occupancy and equipment expense	1,888	1,823	3,819	3,466
Postage	552	485	1,079	943
Insurance	222	219	434	443
Advertising	273	293	526	549
Office supplies and printing	215	225	428	435
Telephone	316	259	656	523
Legal, audit and other professional fees	328	344	569	678
Expense (income) on foreclosed assets	56	99	21	248
Other operating expenses	1,096	817	2,183	1,692
TOTAL NONINTEREST EXPENSE	12,115	10,770	23,865	21,332
INCOME BEFORE INCOME TAXES	11,024	15,365	21,704	20,129
PROVISION FOR INCOME TAXES	3,500	5,071	6,984	6,452
NET INCOME	$ 7,524	$ 10,294	$ 14,720	$ 13,677
BASIC EARNINGS PER COMMON SHARE	$.55	$.75	$1.08	$1.00
DILUTED EARNINGS PER COMMON SHARE	$.54	$.74	$1.06	$ .98
DIVIDENDS DECLARED PER COMMON SHARE	$.15	$.13	$.29	$ .25

See Notes to Consolidated Financial Statements

3

NEXT PAGE

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	SIX MONTHS ENDED JUNE 30,	
	2006	2005
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,720	$ 13,677
Proceeds from sales of loans held for sale	36,105	27,967
Originations of loans held for sale	(32,432)	(24,795)
Items not requiring (providing) cash:		
Depreciation	1,552	1,538
Amortization	192	182
Provision for loan losses	2,750	1,875
Net gains on loan sales	(473)	(438)
Net (gains) losses on sale of available-for-sale securities	29	23
Net (gains) losses on sale of premises and equipment	(157)	10
(Gain) loss on sale of foreclosed assets	(46)	(14)
Amortization of deferred income, premiums and discounts	(806)	12
Deferred income taxes	(588)	(1,556)
Changes in:		
Interest receivable	(1,422)	(1,288)
Prepaid expenses and other assets	(1,007)	(615)
Accounts payable and accrued expenses	626	908
Income taxes refundable/payable	123	(3,205)
Net cash provided by operating activities	19,166	14,281
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(114,919)	(78,850)
Purchase of loans	(32,516)	(39,789)
Proceeds from sale of student loans	974	3,341
Purchase of additional business units	(25)	--
Purchase of premises and equipment	(2,017)	(2,324)
Proceeds from sale of premises and equipment	2,000	74
Proceeds from sale of foreclosed assets	1,579	1,704
Proceeds from maturing available-for-sale investment securities	199,361	--
Proceeds from maturing held-to-maturity investment securities	40	35
Proceeds from called investment securities	500	--
Principal reductions on mortgage-backed securities	39,053	38,053
Proceeds from sale of available-for-sale securities	5,933	33,506
Purchase of available-for-sale securities	(247,125)	(110,576)
(Purchase) redemption of Federal Home Loan Bank stock	(915)	1,922
Net cash used in investing activities	(148,077)	(152,904)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in certificates of deposit	137,614	132,759

Net increase in checking and savings deposits	29,513	18,454
Proceeds from Federal Home Loan Bank advances	287,000	2,975,000
Repayments of Federal Home Loan Bank advances	(297,681)	(3,002,650)
Net increase (decrease) in short-term borrowings	(1,242)	23,563
Advances from borrowers for taxes and insurance	644	570
Purchase of treasury stock	(2,647)	(652)
Dividends paid	(3,843)	(3,289)
Stock options exercised	804	236
Net cash provided by financing activities	150,162	143,991
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,251	5,368
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	117,732	93,211
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 138,983	$ 98,579

See Notes to Consolidated Financial Statements

NEXT PAGE

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") 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 Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three and six months ended June 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2005, has been derived from the audited consolidated statement of financial condition 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 for 2005, as amended, filed with the Securities and Exchange Commission.

NOTE 2: OPERATING SEGMENTS

The Company's banking operation is its only reportable segment. The banking operation is principally engaged in the business of originating residential and commercial real estate loans, construction loans, commercial business loans and consumer loans and funding these loans through deposits attracted from the general public and correspondent account relationships, brokered deposits and borrowings from the Federal Home Loan Bank ("FHLBank") and others. The operating results of this segment are regularly reviewed by management to make decisions about resource allocations and to assess performance.

Revenue from segments below the reportable segment threshold is attributable to three operating segments of the Company. These segments include insurance services, travel services and investment services. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

For the three months ended June 30, 2006, the travel, insurance and investment divisions reported gross revenues of $1.6 million, $323,000 and $622,000, respectively, and net income (loss) of $195,000, $28,000 and $(22,000), respectively. For the three months ended June 30, 2005, the travel, insurance and investment divisions reported gross revenues of $1.4 million, $376,000 and $555,000, respectively, and net income of $201,000, $48,000 and $9,000, respectively.

For the six months ended June 30, 2006, the travel, insurance and investment divisions reported gross revenues of $3.2 million, $753,000 and $1.2 million, respectively, and net income (loss) of $398,000, $87,000 and $(21,000), respectively. For the six months ended June 30, 2005, the travel, insurance and investment divisions reported gross revenues of $2.8 million, $750,000 and $1.1 million, respectively, and net income of $393,000, $96,000 and $24,000, respectively.

5

NEXT PAGE

NOTE 3: COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, requires the reporting of comprehensive income and its components. Comprehensive income is defined as the change in equity from transactions and other events and circumstances from non-owner sources, and excludes investments by and distributions to owners. Comprehensive income includes net income and other items of comprehensive income meeting the above criteria. The Company's only component of other comprehensive income is the unrealized gains and losses on available-for-sale securities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)		(In thousands)	
Net income	$ 7,524	$ 10,294	$ 14,720	$ 13,677
Unrealized holding gains (losses), net of income taxes	(2,217)	1,749	(2,249)	(177)
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	(19)	(2)	(19)	(15)
	(2,198)	1,751	(2,230)	(162)
Comprehensive income	$ 5,326	$ 12,045	$ 12,490	$ 13,515

NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of SFAS No. 109 - Accounting for Income Taxes*. This interpretation addresses accounting for tax uncertainties that arise when a position that an entity takes on its tax return may be different from the position that the taxing authority may take, and provides guidance about the accounting for tax benefits associated with uncertain tax positions, classification of a liability recognized for those positions, and interim reporting considerations. This Interpretation requires that the Company recognize in its financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The Company is evaluating the requirements of the exposure draft to determine the impact, if any, on the financial condition or the results of operations of the Company.

In March 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets.* SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,*

and specifies the accounting for certain servicing assets and liabilities, such as those common to mortgage servicing activities. SFAS No. 156 requires an entity to separately recognize servicing assets and servicing liabilities and to initially measure these servicing assets and servicing liabilities at fair value at inception. It also permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization method or fair value method for subsequent measurement. Adoption of SFAS No. 156 is required for transactions occurring in fiscal years beginning after September 15, 2006, with early adoption permitted. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial condition or results of operations of the Company.

6

NEXT PAGE

In January 2006, the FASB issued an exposure draft - *The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115.* This exposure draft would provide companies with the option to report selected financial assets and liabilities at fair value. Under the option, any changes in fair value would be included in earnings. The proposed Standard seeks to reduce both complexity in accounting and volatility in earnings caused by differences in the existing accounting rules. Current accounting principles use different measurement attributes for different assets and liabilities, which can lead to earnings volatility. The proposed standard helps to mitigate this type of accounting-induced volatility by enabling companies to achieve a more consistent accounting for changes in the fair value of related assets and liabilities without having to apply complex hedge accounting provisions. Under this proposal, entities would be able to measure at fair value financial assets and liabilities selected on a contract-by-contract basis. They would be required to display those values separately from those measured under different attributes on the face of the statement of financial condition. Furthermore, the proposal would require companies to provide additional information that would help investors and other users of financial statements to more easily understand the effect on earnings. The Company is evaluating the exposure draft to determine the impact, if adopted, on certain of its financial assets and liabilities.

NOTE 5: STOCK OPTION PLAN

The Company has stock-based employee compensation plans, which are described more fully in the Company's December 31, 2005 Annual Report on Form 10-K. On January 1, 2006, the Company adopted SFAS No. 123(R), *Share Based Payment*. SFAS No. 123(R) specifies the accounting for share-based payment transactions in which an entity receives employee services in exchange for (a) equity instruments of the entity or (b) liabilities that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123(R) requires an entity to recognize as compensation expense within the income statement the grant-date fair value of stock options and other equity-based compensation granted to employees. As a result, compensation cost related to share-based payment transactions is now recognized in the Company's consolidated financial statements using the modified prospective transition method provided for in the standard. For the three and six months ended June 30, 2006, share-based compensation expense totaling $115,000 and $229,000, respectively, has been included in salaries and employee benefits expense in the Consolidated Statements of Income.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock compensation using the intrinsic value method permitted by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. For 2005, no stock-based employee compensation cost is reflected in the Consolidated Statements of Income, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share for the three and six months ended June 30, 2005, if the Company had applied the fair value provisions of SFAS 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation in 2005.

7

NEXT PAGE

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(In thousands, except per share amounts)	(In thousands, except per share amounts)
Net income, as reported	$ 10,294	$ 13,677
Less: Total stock-based employee compensation cost determined under		

the fair value based method, net of income taxes	(146)	(290)
Pro forma net income	$ 10,148	$ 13,387
Earnings per share		
Basic - as reported	$ .75	$ 1.00
Basic - pro forma	$ .74	$ .98
Diluted - as reported	$ .74	$ .98
Diluted - pro forma	$ .73	$ .96

The Company's stock option grants contain terms that provide for a graded vesting schedule whereby portions of the options vest in increments over the requisite service period. These options typically vest one-fourth at the end of years two, three, four and five from the grant date. As provided for under SFAS No. 123(R), the Company has elected to recognize compensation expense for options with graded vesting schedules on a straight-line basis over the requisite service period for the entire option grant. In addition, SFAS No. 123(R) requires companies to recognize compensation expense based on the estimated number of stock options for which service is expected to be rendered. Because the historical forfeitures of its share-based awards have not been material, the Company has not adjusted for forfeitures in its share-based compensation expensed under SFAS No. 123(R).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used for options granted during the three and six months ended June 30, 2006 and 2005, respectively, were as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Expected dividends per share (annualized)	No options were	$0.48
Risk-free interest rate	granted in this	3.88%
Expected term (in years)	period.	5
Expected volatility		28.79%
Weighted-average fair value of options granted during the period (per share)		$8.17

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Expected dividends per share (annualized)	$0.56	$0.48
Risk-free interest rate	4.34%	3.80%
Expected term (in years)	5	5
Expected volatility	29.82%	25.58%
Weighted-average fair value of options granted during the period (per share)	$8.34	$9.01

NEXT PAGE

Expected volatilities are based on the historical volatility of the Company's stock, based on the monthly closing stock price. The expected term of options granted is based on actual historical exercise behavior of all employees and directors and approximates the graded vesting period of the options. Expected dividends are based on the annualized dividends declared at the time of the option grant. The risk-free interest rate is based on the five-year treasury rate on the grant date of the options.

The following table presents the activity related to options under all plans for the three and six months ended June 30, 2006.

	Three Months Ended June 30, 2006		
	Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term
Options outstanding, March 31, 2006	667,603	$22.232	
Granted	--	--	
Exercised	(18,698)	11.531	
Forfeited	(1,300)	25.419	
Options outstanding, June 30, 2006	647,605	$22.534	6.7 years
Options exercisable, June 30, 2006	385,192	$23.008	6.4 years

	Six Months Ended June 30, 2006		
	Options	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term
Options outstanding, January 1, 2006	688,892	$21.877	
Granted	6,200	29.457	
Exercised	(43,987)	13.236	
Forfeited	(3,500)	22.291	
Options outstanding, June 30, 2006	647,605	$22.534	6.7 years
Options exercisable, June 30, 2006	385,192	$23.008	6.4 years

For the three months ended June 30, 2006 and 2005, options granted were -0- and 1,000, respectively. The total intrinsic value (amount by which the fair value of the underlying stock exceeds the exercise price of an option on exercise date) of options exercised during the three months ended June 30, 2006 and 2005 was $293,000 and $84,000, respectively. Cash received from the exercise of options for the three months ended June 30, 2006 and 2005 was $216,000 and $56,000, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $190,000 and $34,000 for the three months ended June 30, 2006 and 2005, respectively.

For the six months ended June 30, 2006 and 2005, options granted were 6,200 and 12,200, respectively. The total intrinsic value (amount by which the fair value of the underlying stock exceeds the exercise price of an option on exercise date) of options exercised during the six months ended June 30, 2006 and 2005 was $641,000 and $592,000, respectively. Cash received from the exercise of options for the six months ended June 30, 2006 and 2005 was $582,000 and $228,000, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $296,000 and $66,000 for the six months ended June 30, 2006 and 2005, respectively.

9

NEXT PAGE

The following table presents the activity related to nonvested options under all plans for the three and six months ended June 30, 2006.

	Three Months Ended June 30, 2006		
	Options	Weighted-average Exercise Price	Weighted-average Grant Date Fair Value
Nonvested options, March 31, 2006	262,613	$21.841	$5.165
Granted	--	--	--
Vested this period	(100)	18.530	4.220
Nonvested options forfeited	(100)	29.600	8.400
Nonvested options, June 30, 2006	262,413	$21.839	$5.164

	Six Months Ended June 30, 2006		
	Options	Weighted-average Exercise Price	Weighted-average Grant Date Fair Value
Nonvested options, January 1, 2006	262,463	$21.669	$5.064
Granted	6,200	29.457	8.345
Vested this period	(4,450)	23.452	3.878
Nonvested options forfeited	(1,800)	19.264	4.692
Nonvested options, June 30, 2006	262,413	$21.839	$5.164

At June 30, 2006, there was $979,000 of total unrecognized compensation cost related to nonvested options granted under the Company's plans. This compensation cost is expected to be recognized through 2011 with the majority of this expense recognized in 2006 and 2007.

NOTE 6: DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses derivative financial instruments (primarily interest rate swaps) to assist in its interest rate risk management. In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, all derivatives are measured and reported at fair value on the Company's consolidated statement of financial condition as either an asset or a liability. For derivatives that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in the fair values. For all hedging relationships, derivative gains and losses that are not effective in hedging the changes in fair value of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under SFAS 133 are also reported currently in earnings, in noninterest income.

The net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. The net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

10

NEXT PAGE

At the inception of the hedge and quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values of the derivatives have been highly effective in offsetting the changes in the fair values of the hedged item and whether they are expected to be highly effective in the future. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the method for assessing effectiveness and measuring ineffectiveness. In addition, on a quarterly basis, the Company assesses whether the derivative used in the hedging transaction is highly effective in offsetting changes in fair value of the hedged item, and measures and records any ineffectiveness. The Company discontinues hedge accounting prospectively when it is determined that the derivative is or will no longer be effective in offsetting changes in the fair value of the hedged item, the derivative expires, is sold, or terminated, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

The estimates of fair values of the Company's derivatives and related liabilities are calculated by an independent third party using proprietary valuation models. The fair values produced by these valuation models are in part theoretical and reflect assumptions which must be made in using the valuation models. Small changes in assumptions could result in significant changes in valuation. The risks inherent in the determination of the fair value of a derivative may result in income statement volatility.

The Company uses derivatives to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on net interest income and cash flows and to better match the repricing profile of its interest bearing assets and liabilities. As a result of interest rate fluctuations, certain interest-sensitive assets and liabilities will gain or lose market value. In an effective fair value hedging strategy, the effect of this change in value will generally be offset by a corresponding change in value on the derivatives linked to the hedged assets and liabilities.

At June 30, 2006 and December 31, 2005, the Company's fair value hedges include interest rate swaps to convert the economic interest payments on certain brokered CDs from a fixed rate to a floating rate based on LIBOR. At June 30, 2006, these fair value hedges were considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the liabilities being hedged were $556.7 million and $521.0 million at June 30, 2006 and December 31, 2005, respectively. At June 30, 2006, swaps in a net settlement receivable position totaled $114.1 million and swaps in a net settlement payable position totaled $442.6 million. At December 31, 2005, swaps in a net settlement receivable position totaled $177.3 million and swaps in a net settlement payable position totaled $343.7 million. The net gains (losses) recognized in earnings on fair value hedges were $460,000 and $5.5 million for the three months ended June 30, 2006 and 2005, respectively. The net gains (losses) recognized in earnings on fair value hedges were $282,000 and $982,000 for the six months ended June 30, 2006 and 2005, respectively.

NOTE 7: STOCKHOLDERS' EQUITY

Previously, the Company's stockholders approved the Company's reincorporation to the State of Maryland. Under Maryland law, there is no concept of "Treasury Shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to Common Stock and Retained Earnings balances.

11

NEXT PAGE

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, the credit risks of lending 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 loan losses, the Company's ability to access cost-effective funding, demand for loans and deposits in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake-and specifically declines any obligation-to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States and general practices within the financial services industry. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company believes that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining an allowance level believed by management to be sufficient to absorb estimated loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

12

NEXT PAGE

Additional discussion of the allowance for loan losses is included in the Company's 2005 Annual Report on Form 10-K under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Allowances for Losses on Loans and Foreclosed Assets." Judgments and assumptions used by management in the past have resulted in an overall allowance for loan losses that has been sufficient to absorb estimated loan losses. Inherent in this process is the evaluation of individual significant credit relationships. From time to time certain credit relationships may deteriorate due to payment performance, cash flow of the borrower, value of collateral, or other factors. In these instances, management may have to revise its loss estimates and assumptions for these specific credits due to changing circumstances. In some cases, additional losses may be realized; in other instances, the factors that led to the deterioration may improve or the credit may be refinanced elsewhere and allocated allowances may be released from the particular credit. For the periods included in these financial statements, management's overall methodology for evaluating the allowance for loan losses has not changed materially.

General

The profitability of the Company and, more specifically, the profitability of its primary subsidiary, Great Southern Bank (the "Bank"), depends primarily on its net interest income. Net interest income is the difference between the interest income the Bank earns on its loans and investment portfolio, and the interest it pays on interest-bearing liabilities, which consists mainly of interest paid on deposits and borrowings. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these balances. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

In the quarter ended June 30, 2006, Great Southern's total loans increased $44.4 million, or 2.8%. In the six months ended June 30, 2006, Great Southern's total loans increased $139.4 million, or 9.2%. As loan demand is affected by a variety of factors, including general economic conditions, and because of the competition we face, we cannot be assured that our loan growth will match or exceed the level of increases achieved in prior years. If economic conditions do not deteriorate, we believe that we are well positioned to capture loan market share in our Southwest Missouri market as well as our loan production markets of St. Louis, Kansas City, Central Missouri and Northwest Arkansas. In addition, we may consider other markets in which to establish loan production offices. We expect that the majority of our loan portfolio growth will continue to be in the residential and commercial construction and commercial real estate loan categories. In the three months ended June 30, 2006, commercial real estate loan balances increased $15.5 million in spite of the repayment in total of several loans, and residential and commercial construction loan balances increased $14.9 million.

Construction loan balances have increased over the past few years and total approximately $590 million at June 30, 2006. The percentage of the construction loan portfolio by general type of loan is as follows:

Subdivisions in various stage of completion	26%
Homes under construction (primarily by builder, not final occupant)	18%
Apartments and multi-family	13%
Condominium	9%
Office and retail	9%
All other construction	25%

Loan growth continued in our Loan Production Offices (LPO). In the six months ended June 30, 2006, the Overland Park LPO originated loans totaling $35.0 million, of which $24.1 million was included in the office total outstanding balance of $193.5 million at June 30, 2006. In the six months ended June 30, 2006, the Northwest Arkansas LPO originated loans totaling $36.7 million, of which $17.4 million was included in the office total outstanding balance of $134.2 million at June 30, 2006. In the six months ended June 30, 2006, the St. Louis LPO originated loans totaling $161.4 million, of which $70.0 million was included in the office total outstanding balance of $172.0 million at June 30, 2006. Many of these loans originated by our LPOs are construction loans where the customer has yet to draw the full line. The Columbia LPO, which began operating in March 2006 and serves the Columbia, Jefferson City, and Lake of the Ozarks, Missouri, region, originated $1.3 million with additional loans in various pre-closing stages.

NEXT PAGE

The Company attracts deposit accounts through our retail branch network, correspondent banking and corporate services areas, and brokered deposits. The Company then utilizes these deposit funds to meet loan demand. In the six months ended June 30, 2006, total deposit balances increased $159.1 million. Of this total increase, brokered certificate balances increased $132.6 million, customer checking accounts increased $29.7 million and retail certificates of deposit decreased $3.2 million. As the generation of increased net interest income is critical to the growth of Great Southern's earnings, the continued ability to attract deposits or generate other funding sources is very important to successful loan growth. There is a high level of competition for deposits in our markets. While it is our goal to gain checking account and certificate of deposit market share in our branch footprint, we cannot be assured of this in future periods.

Our ability to fund growth in future periods may also be dependent on our ability to continue to access brokered deposits and Federal Home Loan Bank advances. In times when our loan demand has outpaced our generation of new deposits, we have utilized brokered deposits and Federal Home Loan Bank advances to fund these loans. These types of funding have been attractive to us because we can create variable rate funding which more closely matches the variable rate nature of much of our loan portfolio. While we do not currently anticipate that our ability to access these funding sources will be reduced or eliminated in future periods, if this should happen, the limitation on our ability to fund additional loans would adversely affect our business, financial condition and results of operations.

Finally, our net interest income may be affected positively or negatively by market interest rate changes. A large portion of our loan portfolio is tied to the "prime" rate and adjusts immediately when this rate adjusts. We also have a large portion of our liabilities that will reprice with changes to the federal funds rate or the three-month LIBOR rate. We monitor our sensitivity to interest rate changes on an ongoing basis (see "Quantitative and Qualitative Disclosures About Market Risk"). While we currently believe that neither increases nor decreases in market interest rates will materially adversely impact our net interest income, circumstances could change which may alter that outlook.

Ongoing changes in the level and shape of the interest rate yield curve pose challenges for interest rate risk management. Beginning in 2001, market interest rates were in a downward trend, settling at historically low levels from late 2003 through early 2004. During this period, Great Southern was able to effectively manage its interest rate risk and maintain its net interest margin at fairly stable levels.

Beginning in the second half of 2004 and through June 30, 2006, the Board of Governors of the Federal Reserve System (the "FRB") increased short-term interest rates through steady increases to the Federal Funds rate. Other short-term rates, such as LIBOR and short-term U. S. Treasury rates, increased in conjunction with these increases by the FRB. By June 30, 2006, the FRB had raised the Federal Funds rates by 4.25% (from 1.00% in June 2004) and other short-term rates rose by corresponding amounts. However, there was not a parallel shift in the yield curve; intermediate and long-term interest rates did not increase at a corresponding pace. This caused the shape of the interest rate yield curve to become much flatter, which creates different issues for interest rate risk management. In addition during this period, Great Southern's net interest margin was negatively affected by certain characteristics of some of its loans, deposit mix, loan and deposit pricing by competitors, and timing of interest rate increases by the FRB as compared to interest rate increases in the financial markets.

NEXT PAGE

The Company's profitability is also affected by the level of its non-interest income and operating expenses. Non-interest income consists primarily of service charges and ATM fees, commissions earned by our travel, insurance and investment divisions, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. Non-interest income is also affected by the Company's hedging activities. Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, postage, insurance, advertising and public relations, telephone, professional fees, office expenses and other general operating expenses.

In the three months ended June 30, 2006 compared to the three months ended June 30, 2005, non-interest income increased primarily due to increases in commission revenues earned by the Company's travel, insurance and investment divisions and increases in service charges and overdraft fees. Fees from service charges and overdrafts will likely increase modestly in 2006 compared to 2005 as we expect that retail checking accounts will grow at a modest pace in 2006. We expect to continue to add checking balances; however, much of this growth is expected to come from additional corporate and correspondent banking relationships which will not generate as much fee income as smaller individual checking accounts. The level of commission revenue is likely to remain slightly above 2005 levels in 2006, assuming no substantial shocks occur in the financial markets or the travel industry. Most of the increase in commission revenue in the quarter ended June 30, 2006, was attributable to the travel division.

Non-interest income was also significantly affected by the Company's restatement in 2005 for certain interest rate swaps, which significantly impacted prior period results. Non-interest income increased $5.5 million in the three months ended June 30, 2005, and increased $690,000 in the three months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps. In addition, non-interest income for the first quarter of 2005 was also impacted by the reclassification of the net interest settlements on these swaps from net interest income to non-interest income. While this had no effect on total net income, non-interest income was increased by $1.1 million in the three months ended June 30, 2005. There was no reclassification of net interest settlements in the three months ended June 30, 2006.

In the three months ended June 30, 2006 compared to the three months ended June 30, 2005, operating expenses increased primarily in the category of salaries and benefits expense, with smaller increases in some of the other expense categories such as occupancy and equipment expense, postage, telephone and others. We anticipate that the remainder of 2006 will be fairly consistent with the expenses recorded in the first half of 2006. Employee costs and occupancy expenses may increase as we continue to add new banking centers in Southwest Missouri to serve new and existing customers and support growth in lending and operational areas. In the third quarter of 2006, we expect to open our first full-service banking center location in Lee's Summit, Missouri, in the Kansas City market. In addition, we have recently opened a loan production office in Columbia, Missouri, to serve new and existing customers in the central Missouri area. We anticipate that lending opportunities will continue to increase in our existing loan production offices in St. Louis, Kansas City and Northwest Arkansas and we will increase staffing as needed in these offices to meet demand for commercial and residential loans.

NEXT PAGE

The operations of the Bank, and banking institutions in general, are significantly influenced by general economic conditions and related monetary and fiscal policies of regulatory agencies. Deposit flows and the cost of deposits and borrowings are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing real estate and other types of loans, which in turn are affected by the interest rates at which such financing may be offered and other factors affecting loan demand and the availability of funds.

In the third quarter of 2006, the Company expects to expand its retail banking center network from 35 to 37 offices. Great Southern intends to open a banking center in late August in Lee's Summit, Missouri, a growing Kansas City-area community. This banking center will mark the Company's first retail banking presence in the region and complements services already provided in the area: a Great Southern Travel office in Lee's Summit and an Overland Park, Kan.-based loan production office serving the metropolitan Kansas City market. In early September, the Company also intends to open a banking center near Springfield in Ozark, Missouri, the second Great Southern location in this growing southwest Missouri community.

Effect of Federal Laws and Regulations

Federal legislation and regulation significantly affect the banking operations of the Company and the Bank, and have increased competition among commercial banks, savings institutions, mortgage banking enterprises and other financial institutions. In particular, the capital requirements and operations of regulated depository institutions such as the Company and the Bank have been and will be subject to changes in applicable statutes and regulations from time to time, which changes could, under certain circumstances, adversely affect the Company or the Bank.

NEXT PAGE

Comparison of Financial Condition at June 30, 2006 and December 31, 2005

During the six months ended June 30, 2006, the Company increased total assets by $163.0 million to $2.24 billion. Net loans increased by $139.4 million. The main loan areas experiencing increases were commercial and residential construction, commercial real estate and commercial business loans. The Company's strategy continues to be focused on growing the loan portfolio, while maintaining credit risk and interest rate risk at appropriate levels. For many years, the Company has developed a niche in commercial real estate and construction lending in Southwest Missouri. Great Southern's strategy is to continue to build on this competency in Southwest Missouri and in other geographic areas through the Company's four loan production offices. In addition, loan growth should continue as we deepen existing relationships with loan customers who are expanding their operations in other areas. Available-for-sale investment securities decreased by $1.6 million. While there is no specifically stated goal, the available-for-sale securities portfolio has recently been approximately 15% to 20% of total assets.

Total liabilities increased $156.3 million from December 31, 2005 to $2.08 billion at June 30, 2006. Deposits increased $159.1 million. Partially offsetting this increase, FHLBank advances decreased $10.7 million and short-term borrowings decreased $1.2 million. FHLBank advances decreased from $203.4 million at December 31, 2005, to $192.8 million at June 30, 2006. The level of FHLBank advances will fluctuate depending on growth in the Company's loan portfolio and other funding needs and sources of the Company. Retail certificates of deposit decreased $3.2 million, to $373.1 million. Total brokered deposits were $717.2 million at June 30, 2006, up from $584.7 million at December 31, 2005. Interest-bearing checking balances increased $13.0 million in the six months ended June 30, 2006, to $410.1 million. Checking account balances totaled $619.0 million at June 30, 2006, up from $590.0 million at December 31, 2005.

Stockholders' equity increased $6.7 million from $152.8 million at December 31, 2005 to $159.5 million at June 30, 2006. Net income for the six months ended June 30, 2006, was $14.7 million, partially offset by a decrease of $2.2 million in accumulated other comprehensive income, dividends declared of $4.0 million and net repurchases of the Company's common stock of $1.8 million. During the six months ended June 30, 2006, the Company repurchased 99,613 shares of its common stock at an average price of $26.57 per share and issued 43,987 shares at an average price of $13.24 per share to cover stock option exercises.

In the three months ended June 30, 2006, the Company was not aggressively buying back shares of its stock, choosing instead to utilize its capital to support growth in the loan portfolio. Management intends to continue its stock buy-back programs from time to time as long as repurchasing the stock contributes to the overall growth of shareholder value. The number of shares of stock that will be repurchased and the price that will be paid is the result of many factors, several of which are outside the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time, the price of the stock within the market as determined by the market, and the projected impact on the Company's earnings per share.

NEXT PAGE

Results of Operations and Comparison for the Three and Six Months Ended June 30, 2006 and 2005

General

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, net income decreased $2.8 million, or 26.9%, during the three months ended June 30, 2006, compared to the three months ended June 30, 2005. This decrease was primarily due to a decrease in non-interest income of $5.7 million, or 43.2%, an increase in non-interest expense of $1.3 million, or 12.5%, and an increase in provision for loan losses of $450,000, or 46.2%, partially offset by an increase in net interest income of $3.1 million, or 22.2%, and a decrease in provision for income taxes of $1.6 million, or 31.0%.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, net income increased $604,000, or 8.7%, during the three months ended June 30, 2006, compared to the three months ended June 30, 2005. This increase was primarily due to an increase in net interest income of $2.3 million, or 14.9%, and an increase in non-interest income of $325,000, or 5.1%, partially offset by an increase in non-interest expense of $1.3 million, or 12.5%, an increase in provision for loan losses of $450,000, or 46.2%, and an increase in provision for income taxes of $245,000, or 7.5%.

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, net income increased $1.0 million, or 7.6%, during the six months ended June 30, 2006, compared to the six months ended June 30, 2005. This increase was primarily due to an increase in net interest income of $6.4 million, or 23.5%, partially offset by a decrease in non-interest income of $1.4 million, or 8.9%, an increase in non-interest expense of $2.5 million, or 11.9%, an increase in provision for loan losses of $875,000, or 46.7%, and an increase in provision for income taxes of $532,000, or 8.2%.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, net income increased $1.6 million, or 12.1%, during the six months ended June 30, 2006, compared to the six months ended June 30, 2005. This increase was primarily due to an increase in net interest income of $4.1 million, or 13.3%, and an increase in non-interest income of $1.8 million, or 14.6%, partially offset by an increase in non-interest expense of $2.5 million, or 11.8%, an increase in provision for loan losses of $875,000, or 46.7%, and an increase in provision for income taxes of $846,000, or 13.4%.

Selected Financial Data and Non-GAAP Reconciliation:

(Dollars in thousands)

	Three Months Ended June 30, 2006		
	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Net interest income	**$17,123**	$ (720)	$17,843
Provision for loan losses	**1,425**	--	1,425
Non-interest income	**7,441**	690	6,751
Non-interest expense	**12,115**	--	12,115
Provision for income taxes	**3,500**	10	3,510
Net income	**$7,524**	$ (20)	$7,544

NEXT PAGE

	Three Months Ended June 30, 2005		
	As Reported	Effect of Accounting Change for Interest Rate Swaps	Excluding Accounting Change for Interest Rate Swaps
Net interest income	**$14,014**	$ (1,510)	$15,524
Provision for loan losses	**975**	--	975
Non-interest income	**13,096**	6,670	6,426
Non-interest expense	**10,770**	--	10,770
Provision for income taxes	**5,071**	(1,806)	3,265
Net income	**$10,294**	$ 3,354	$6,940

Six Months Ended June 30, 2006

	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Net interest income	**$33,755**	$ (983)	$34,738
Provision for loan losses	**2,750**	--	2,750
Non-interest income	**14,564**	482	14,082
Non-interest expense	**23,865**	--	23,865
Provision for income taxes	**6,984**	175	7,159
Net income	**$14,720**	$ (326)	$15,046

	Six Months Ended June 30, 2005		
	As Reported	Effect of Accounting Change for Interest Rate Swaps	Excluding Accounting Change for Interest Rate Swaps
Net interest income	**$27,343**	$ (3,311)	$30,654
Provision for loan losses	**1,875**	--	1,875
Non-interest income	**15,993**	3,709	12,284
Non-interest expense	**21,332**	--	21,332
Provision for income taxes	**6,452**	(139)	6,313
Net income	**$13,677**	$ 259	$13,418

	Three Months Ended June 30,			
	2006		2005	
	Dollars (000)	Earnings Per Diluted Share	Dollars (000)	Earnings Per Diluted Share
Reported Earnings	**$7,524**	**$.54**	**$10,294**	**$.74**
Amortization of deposit broker origination fees (net of taxes)	468	.03	237	.02
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(448)	(.03)	(3,591)	(.26)

Earnings excluding impact of hedge accounting entries	$7,544	$.54	$6,940	$.50

NEXT PAGE

	Six Months Ended June 30,			
	2006		2005	
	Dollars (000)	Earnings Per Diluted Share	Dollars (000)	Earnings Per Diluted Share
Reported Earnings	**$14,720**	**$1.06**	**$13,677**	**$.98**
Amortization of deposit broker origination fees (net of taxes)	639	.05	379	.03
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(313)	(.02)	(638)	(.05)
Earnings excluding impact of hedge accounting entries	$15,046	$1.09	$13,418	$.96

The information presented in the tables above and elsewhere in this report excluding hedge accounting entries recorded (for the 2006 period) and excluding the effect of the accounting change for interest rate swaps (for the 2005 period) is not prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The Company believes that this non-GAAP financial information may be useful to investors because the Company believes that the exclusions of these items from the specified components of net income better reflect the Company's underlying operating results during the periods indicated. The tables above contain reconciliations of this information to the reported information prepared in accordance with GAAP.

Total Interest Income

Total interest income increased $9.7 million, or 35.2%, during the three months ended June 30, 2006 compared to the three months ended June 30, 2005. The increase was due to a $9.7 million, or 41.7%, increase in interest income on loans and a $12,000, or 0.3%, increase in interest income on investments and other interest-earning assets. Interest income for loans and investment securities and other interest-earning assets increased due to higher average rates of interest. Interest income for loans also increased due to higher average balances.

NEXT PAGE

Total interest income increased $18.9 million, or 35.9%, during the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The increase was due to an $18.5 million, or 42.0%, increase in interest income on loans and a $352,000, or 4.2%, increase in interest income on investments and other interest-earning assets. Interest income for loans and investment securities and other interest-earning assets increased due to higher average rates of interest. Interest income for loans also increased due to higher average balances.

Interest Income - Loans

During the three months ended June 30, 2006 compared to the three months ended June 30, 2005, interest income on loans increased due to higher average balances and higher average interest rates. Interest income increased $4.0 million as the result of higher average loan balances from $1.43 billion during the three months ended June 30, 2005 to $1.65 billion during the three months ended June 30, 2006. The higher average balance resulted principally from the Bank's increased commercial and residential construction lending, commercial real estate lending (including industrial revenue bonds) and consumer lending. Demand for these types of loans remains high in the Company's market areas. Prior to 2005, the Bank's one- to four-family residential loan portfolio had decreased due to the origination of a greater dollar amount of fixed-rate rather than adjustable-rate loans. The Bank generally sells these fixed-rate loans in the secondary market. Beginning in 2005 and into 2006, the Bank's one- to four-family residential portfolio increased as more borrowers selected adjustable rate loans, which the Bank usually retains. In addition, loan refinancing, which tended to be primarily into lower fixed-rate products, slowed dramatically since 2004 compared to previous years as market interest rates increased.

Interest income increased $5.6 million as the result of higher average interest rates. The average yield on loans increased from 6.54% during the three months ended June 30, 2005, to 7.99% during the three months ended June 30, 2006. Loan rates were generally low in 2004 and early 2005, as a result of lower market rates of interest, primarily the "prime rate" of interest, which had decreased from 2001 through the first half of 2004. A large portion of the Bank's loan portfolio adjusts with changes to the "prime rate" of interest. The Company has a portfolio of prime based loans which have interest rate floors. During 2004 and 2005, many of these loan rate floors were in effect and established a loan rate which was higher than the contractual rate would have otherwise been. During 2005 and 2006, as market interest rates rose, many of these interest rate floors were exceeded and the loans reverted back to their normal contractual interest rate terms. In the three months ended June 30, 2006, the average yield on loans was 7.99% versus an average prime rate for the period of 7.90%, or a difference of 9 basis points. In the three months ended June 30, 2005, the average yield on loans was 6.54% versus an average prime rate for the period of 5.91%, or a difference of 63 basis points.

NEXT PAGE

During the six months ended June 30, 2006 compared to the six months ended June 30, 2005, interest income on loans increased due to higher average balances and higher average interest rates. Interest income increased $7.7 million as the result of higher average loan balances from $1.40 billion during the six months ended June 30, 2005 to $1.62 billion during the six months ended June 30, 2006. The higher average balance resulted principally from the Bank's increased commercial and residential construction lending, commercial real estate lending (including industrial revenue bonds) and consumer lending. Demand for these types of loans remains high in the Company's market areas. Prior to 2005, the Bank's one- to four-family residential loan portfolio had decreased due to the origination of a greater dollar amount of fixed-rate rather than adjustable-rate loans. The Bank generally sells these fixed-rate loans in the secondary market, as stated above.

Interest income increased $10.9 million as the result of higher average interest rates. The average yield on loans increased from 6.38% during the six months ended June 30, 2005, to 7.81% during the six months ended June 30, 2006. Loan rates were generally low in 2004 and early 2005, as a result of lower market rates of interest, primarily the "prime rate" of interest, which had decreased from 2001 through the first half of 2004. A large portion of the Bank's loan portfolio adjusts with changes to the "prime rate" of interest. The Company has a portfolio of prime based loans which have interest rate floors. During 2004 and 2005, many of these loan rate floors were in effect and established a loan rate which was higher than the contractual rate would have otherwise been. During 2005 and 2006, as market interest rates rose, many of these interest rate floors were exceeded and the loans reverted back to their normal contractual interest rate terms. In the six months ended June 30, 2006, the average yield on loans was 7.81% versus an average prime rate for the period of 7.66%, or a difference of 15 basis points. In the six months ended June 30, 2005, the average yield on loans was 6.38% versus an average prime rate for the period of 5.68%, or a difference of 70 basis points.

Interest Income - Investments and Other Interest-earning Assets

Interest income on investments and other interest-earning assets increased slightly, mainly as a result of higher average rates partially offset by lower average balances during the three months ended June 30, 2006, when compared to the three months ended June 30, 2005. Interest income increased $119,000 as a result of an increase in average rates from 4.10% during the three months ended June 30, 2005, to 4.36% during the three months ended June 30, 2006. Interest income decreased $107,000 as a result of a decrease in average balances from $421 million during the three months ended June 30, 2005, to $397 million during the three months ended June 30, 2006. In 2005 and 2006, as principal balances on mortgage-backed securities were paid down through prepayments and normal amortization, the Company replaced a large portion of these securities with variable-rate mortgage-backed securities (primarily one-year and hybrid ARMs) which had a lower yield at the time of purchase relative to the fixed-rate securities remaining in the portfolio. As these securities reach interest rate reset dates, their rates should increase along with market interest rate increases. Approximately $40-50 million of these securities will have their interest rate reset in the last half of 2006. In addition, the Company continues to increase its balance of tax-exempt securities issued by states and municipalities. These securities generally have coupon yields which are comparable to the variable-rate mortgage-backed securities the Company purchased; however, the tax-equivalent yield is typically higher.

Interest income on investments and other interest-earning assets increased mainly as a result of higher average rates partially offset by lower average balances during the six months ended June 30, 2006, when compared to the six months ended June 30, 2005. Interest income increased $505,000 as a result of an increase in average rates from 4.05% during the six months ended June 30, 2005, to 4.30% during the six months ended June 30, 2006. Interest income decreased $153,000 as a result of a decrease in average balances from $416 million during the six months ended June 30, 2005, to $409 million during the six months ended June 30, 2006. Activities related to investments are explained in the preceding paragraph.

Total Interest Expense

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, total interest expense increased $6.6 million, or 48.7%, during the three months ended June 30, 2006, when compared with the three months ended June 30, 2005, primarily due to an increase in interest expense on deposits of $6.0 million, or 60.1%, an increase in interest expense on FHLBank advances of $252,000, or 12.0%, an increase in interest expense on short-term borrowings of $235,000, or 19.9%, and an increase in interest expense on subordinated debentures issued to capital trust of $82,000, or 34.9%.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, total interest expense increased $7.4 million, or 61.4%, during the three months ended June 30, 2006, when compared with the three months ended June 30, 2005, primarily due to an increase in interest expense on deposits of $6.8 million, or 80.0%, an increase in interest expense on FHLBank advances of $252,000, or 12.0%, an increase in interest expense on short-term borrowings of $235,000, or 19.9%, and an increase in interest expense on subordinated debentures issued to capital trust of $82,000, or 34.9%.

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, total interest expense increased $12.5 million, or 49.5%, during the six months ended June 30, 2006, when compared with the six months ended June 30, 2005, primarily due to an increase in interest expense on deposits of $11.1 million, or 59.8%, an increase in interest expense on FHLBank advances of $528,000, or 13.7%, an increase in interest expense on short-term borrowings of $645,000, or 28.5%, and an increase in interest expense on subordinated debentures issued to capital trust of $157,000, or 35.3%.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, total interest expense increased $14.8 million, or 67.6%, during the six months ended June 30, 2006, when compared with the six months ended June 30, 2005, primarily due to an increase in interest expense on deposits of $13.5 million, or 87.9%, an increase in interest expense on FHLBank advances of $528,000, or 13.7%, an increase in interest expense on short-term borrowings of $645,000, or 28.5%, and an increase in interest expense on subordinated debentures issued to capital trust of $157,000, or 35.3%.

Interest Expense - Deposits

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, interest on demand deposits increased $976,000 due to an increase in average rates from 1.99% during the three months ended June 30, 2005, to 2.93% during the three months ended June 30, 2006. The average interest rates increased due to higher overall market rates of interest throughout 2005 and into 2006. Market rates of interest on checking and money market accounts began to increase in the latter half of 2004 as the FRB raised short-term interest rates. Interest on demand deposits increased $210,000 due to an increase in average balances from $384 million during the three months ended June 30, 2005, to $423 million during the three months ended June 30, 2006. The Company continued to increase its checking balances in 2006 through increased relationships with correspondent, corporate and retail customers. Average noninterest-bearing demand balances increased from $167 million in the three months ended June 30, 2005, to $191 million in the three months ended June 30, 2006.

Interest expense on deposits increased $3.0 million as a result of an increase in average rates of interest on time deposits from 3.82% during the three months ended June 30, 2005, to 5.09% during the three months ended June 30, 2006. Interest expense on deposits also increased $1.8 million due to an increase in average balances of time deposits from $852 million during the three months ended June 30, 2005, to $1.02 billion during the three months ended June 30, 2006. Market rates of interest on new certificates began to increase in the latter half of 2004 and throughout 2005 and 2006 as the FRB raised short-term interest rates. In 2005 and 2006, the Company increased its balances of brokered certificates of deposit to fund loan growth. In addition, the Company's interest rate swaps are repricing to higher rates in conjunction with the increases in market interest rates.

The effects of the Company's accounting change in 2005 for certain interest rate swaps did not impact interest on demand deposits.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, interest expense on deposits increased $4.1 million as a result of an increase in average rates of interest on time deposits from 3.11% during the three months ended June 30, 2005, to 4.81% during the three months ended June 30, 2006. Interest expense on deposits also increased $1.5 million due to an increase in average balances of time deposits from $852 million during the three months ended June 30, 2005, to $1.02 billion during the three months ended June 30, 2006.

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, interest on demand deposits increased $2.2 million due to an increase in average rates from 1.86% during the six months ended June 30, 2005, to 2.90% during the six months ended June 30, 2006. The average interest rates increased due to higher overall market rates of interest throughout 2005 and into 2006. Market rates of interest on checking and money market accounts began to increase in the latter half of 2004 as the FRB raised short-term interest rates. Interest on demand deposits increased $574,000 due to an increase in average balances from $380 million during the six months ended June 30, 2005, to $436 million during the six months ended June 30, 2006. The Company continued to increase its checking balances in 2006 through increased relationships with correspondent, corporate and retail customers. Average noninterest-bearing demand balances increased from $160 million in the six months ended June 30, 2005, to $186 million in the six months ended June 30, 2006.

NEXT PAGE

Interest expense on deposits increased $5.0 million as a result of an increase in average rates of interest on time deposits from 3.68% during the six months ended June 30, 2005, to 4.77% during the six months ended June 30, 2006. Interest expense on deposits also increased $3.3 million due to an increase in average balances of time deposits from $829 million during the six months ended June 30, 2005, to $993 million during the six months ended June 30, 2006. Market rates of interest on new certificates began to increase in the latter half of 2004 and throughout 2005 and 2006 as the FRB raised short-term interest rates. In 2005 and 2006, the Company increased its balances of brokered certificates of deposit to fund loan growth. In addition, the Company's interest rate swaps are repricing to higher rates in conjunction with the increases in market interest rates.

The effects of the Company's accounting change in 2005 for certain interest rate swaps did not impact interest on demand deposits.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, interest expense on deposits increased $8.0 million as a result of an increase in average rates of interest on time deposits from 2.87% during the six months ended June 30, 2005, to 4.57% during the six months ended June 30, 2006. Interest expense on deposits also increased $2.7 million due to an increase in average balances of time deposits from $829 million during the six months ended June 30, 2005, to $993 million during the six months ended June 30, 2006.

Interest Expense - FHLBank Advances, Short-term Borrowings and Subordinated Debentures Issued to Capital Trust

During the three months ended June 30, 2006 compared to the three months ended June 30, 2005, interest expense on FHLBank advances increased due to higher average interest rates, partially offset by lower average balances. Interest expense on FHLBank advances increased $342,000 due to an increase in average interest rates from 3.74% in the three months ended June 30, 2005, to 4.39% in the three months ended June 30, 2006. Interest expense on FHLBank advances decreased $90,000 due to a decrease in average balances from $225 million during the three months ended June 30, 2005, to $215 million during the three months ended June 30, 2006. The decrease in FHLBank advances was offset by increases in the Company's deposits. Rates on advances increased as the Company employed advances which mature in a relatively short term and advances which are indexed to one-month LIBOR and adjust monthly.

Average rates on short-term borrowings increased from 2.89% in the three months ended June 30, 2005, to 4.29% in the three months ended June 30, 2006, resulting in increased interest expense of $389,000. In addition, interest expense on short-term borrowings decreased $154,000 due to a decrease in average balances from $164 million during the three months ended June 30, 2005, to $132 million during the three months ended June 30, 2006. The decrease in balances of short-term borrowings was primarily due to decreases in securities sold under repurchase agreements with the Company's deposit customers. The average interest rates increased due to higher overall market rates of interest in 2006. Market rates of interest on short-term borrowings began to increase in the latter half of 2004 and continued to increase into 2006 as the FRB has been raising short-term interest rates.

NEXT PAGE

Interest expense on subordinated debentures issued to capital trust increased $89,000 due to increases in average rates from 5.13% in the three months ended June 30, 2005, to 7.15% in the three months ended June 30, 2006. The average rate on these subordinated debentures is likely to remain at this level or higher in the near term as these liabilities are subject to an interest rate swap that requires the Company to pay a variable rate of interest that is indexed to LIBOR. LIBOR rates are expected to remain higher in 2006 than in 2005.

During the six months ended June 30, 2006 compared to the six months ended June 30, 2005, interest expense on FHLBank advances increased due to higher average interest rates, partially offset by lower average balances. Interest expense on FHLBank advances increased $715,000 due to an increase in average interest rates from 3.60% in the six months ended June 30, 2005, to 4.32% in the six months ended June 30, 2006. Interest expense on FHLBank advances decreased $187,000 due to a decrease in average balances from $216 million during the six months ended June 30, 2005, to $204 million during the six months ended June 30, 2006. The decrease in FHLBank advances was offset by increases in the Company's deposits. Rates on advances increased as the Company employed advances which mature in a relatively short term and advances which are indexed to one-month LIBOR and adjust monthly.

Average rates on short-term borrowings increased from 2.73% in the six months ended June 30, 2005, to 4.18% in the six months ended June 30, 2006, resulting in increased interest expense of $923,000. In addition, interest expense on short-term borrowings decreased $278,000 due to a decrease in average balances from $167 million during the six months ended June 30, 2005, to $140 million during the six months ended June 30, 2006. The decrease in balances of short-term borrowings was primarily due to decreases in securities sold under repurchase agreements with the Company's deposit customers. The average interest rates increased due to higher overall market rates of interest in 2006. Market rates of interest on short-term borrowings began to increase in the latter half of 2004 and continued to increase into 2006 as the FRB has been raising short-term interest rates.

Interest expense on subordinated debentures issued to capital trust increased $170,000 due to increases in average rates from 4.86% in the six months ended June 30, 2005, to 6.79% in the six months ended June 30, 2006. The average rate on these subordinated debentures is likely to remain at this level or higher in the near term as these liabilities are subject to an interest rate swap that requires the Company to pay a variable rate of interest that is indexed to LIBOR. LIBOR rates are expected to remain higher in 2006 than in 2005.

Net Interest Income

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, the Company's overall average interest rate spread increased 14 basis points, or 5.2%, from 2.68% during the three months ended June 30, 2005, to 2.82% during the three months ended June 30, 2006. The increase was due to a 130 basis point increase in the weighted average yield received on interest-earning assets, partially offset by a 116 basis point increase in the weighted average rate paid on interest-bearing liabilities. The Company's overall net interest margin increased 31 basis points, or 10.2%, from 3.04% during the three months ended June 30, 2005, to 3.35% during the three months ended June 30, 2006. In comparing the two periods, the yield on loans increased 144 basis points while the yield on investment securities and other interest-earning assets increased 26 basis points. The rate paid on deposits increased 121 basis points, the rate paid on FHLBank advances increased 65 basis points, the rate paid on short-term borrowings increased 140 basis points, and the rate paid on subordinated debentures issued to capital trust increased 202 basis points.

NEXT PAGE

The prime rate of interest averaged 5.91% during the three months ended June 30, 2005, compared to an average of 7.90% during the three months ended June 30, 2006. The prime rate began to increase in the latter half of 2004 as the FRB began to raise short-term interest rates, and stood at 8.25% at June 30, 2006. A large percentage of the Bank's loans are tied to prime, which resulted in increased loan yields in 2006 compared to 2005. This trend is expected to continue in the near term as the FRB again raised short-term interest rates in June 2006 and may further increase rates.

Interest rates paid on deposits, FHLBank advances, short-term borrowings and subordinated debentures were significantly higher in the three months ended June 30, 2006 compared to the 2005 period. Interest costs on these liabilities began to increase in the latter half of 2004 through 2006 as a result of rising short-term market interest rates, primarily due to increases by the FRB. These interest costs may continue to increase in the near term. The Company continues to utilize interest rate swaps and FHLBank advances that reprice frequently to manage overall interest rate risk. See "Quantitative and Qualitative Disclosures About Market Risk" for additional information on the Company's interest rate swaps.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, the Company's overall average interest rate spread decreased 7 basis points, or 2.3%, from 3.05% during the three months ended June 30, 2005, to 2.98% during the three months ended June 30, 2006. The decrease was due to a 137 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 130 basis point increase in the weighted average yield received on interest-earning assets. Excluding the impact of the accounting change for certain interest rate swaps, economically, net interest income for the second quarter of 2006 increased $2.3 million to

$17.8 million compared to $15.5 million for the second quarter of 2005. Net interest margin excluding the effects of the accounting change was 3.49% in the quarter ended June 30, 2006, compared to 3.37% in the quarter ended June 30, 2005. In comparing the two periods, the yield on loans increased 144 basis points while the yield on investment securities and other interest-earning assets increased 26 basis points. The rate paid on deposits increased 150 basis points, the rate paid on FHLBank advances increased 65 basis points, the rate paid on short-term borrowings increased 140 basis points, and the rate paid on subordinated debentures issued to capital trust increased 202 basis points.

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, the Company's overall average interest rate spread increased 17 basis points, or 6.3%, from 2.69% during the six months ended June 30, 2005, to 2.86% during the six months ended June 30, 2006. The increase was due to a 126 basis point increase in the weighted average yield received on interest-earning assets, partially offset by a 109 basis point increase in the weighted average rate paid on interest-bearing liabilities. The Company's overall net interest margin increased 32 basis points, or 10.5%, from 3.04% during the six months ended June 30, 2005, to 3.36% during the six months ended June 30, 2006. In comparing the two periods, the yield on loans increased 143 basis points while the yield on investment securities and other interest-earning assets increased 25 basis points. The rate paid on deposits increased 109 basis points, the rate paid on FHLBank advances increased 72 basis points, the rate paid on short-term borrowings increased 145 basis points, and the rate paid on subordinated debentures issued to capital trust increased 193 basis points.

NEXT PAGE

The prime rate of interest averaged 5.68% during the six months ended June 30, 2005, compared to an average of 7.66% during the six months ended June 30, 2006. The prime rate began to increase in the latter half of 2004 as the FRB began to raise short-term interest rates, and stood at 8.25% at June 30, 2006. A large percentage of the Bank's loans are tied to prime, which resulted in increased loan yields in 2006 compared to 2005. This trend is expected to continue in the near term as the FRB again raised short-term interest rates in June 2006 and may further increase rates.

Interest rates paid on deposits, FHLBank advances, short-term borrowings and subordinated debentures were significantly higher in the six months ended June 30, 2006 compared to the 2005 period. Interest costs on these liabilities began to increase in the latter half of 2004 through 2006 as a result of rising short-term market interest rates, primarily due to increases by the FRB. These interest costs may continue to increase in the near term. The Company continues to utilize interest rate swaps and FHLBank advances that reprice frequently to manage overall interest rate risk. See "Quantitative and Qualitative Disclosures About Market Risk" for additional information on the Company's interest rate swaps.

Excluding the effects of the Company's accounting change in 2005 for certain interest rate swaps, economically, the Company's overall average interest rate spread decreased 12 basis points, or 3.9%, from 3.10% during the six months ended June 30, 2005, to 2.98% during the six months ended June 30, 2006. The decrease was due to a 138 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 126 basis point increase in the weighted average yield received on interest-earning assets. Excluding the impact of the accounting change for certain interest rate swaps, economically, net interest income for the first half of 2006 increased $4.1 million to $34.7 million compared to $30.6 million for the first half of 2005. Net interest margin excluding the effects of the accounting change was 3.41% in the six months ended June 30, 2006, compared to 3.46% in the six months ended June 30, 2005. In comparing the two periods, the yield on loans increased 143 basis points while the yield on investment securities and other interest-earning assets increased 25 basis points. The rate paid on deposits increased 151 basis points, the rate paid on FHLBank advances increased 72 basis points, the rate paid on short-term borrowings increased 145 basis points, and the rate paid on subordinated debentures issued to capital trust increased 193 basis points.

Non-GAAP Reconciliation:

(Dollars in thousands)

	Three Months Ended June 30,			
	2006		2005	
	$	%	$	%
Reported Net Interest Margin	**$17,123**	**3.35%**	**$14,014**	**3.04%**

Amortization of deposit broker origination fees	720	.14	365	.08
Interest rate swap net settlements	--	--	1,145	.25
Net interest margin excluding impact of hedge accounting entries	$17,843	3.49%	$15,524	3.37%

NEXT PAGE

	Six Months Ended June 30,			
	2006		2005	
	$	%	$	%
Reported Net Interest Margin	**$33,755**	**3.36%**	**$27,343**	**3.04%**
Amortization of deposit broker origination fees	983	.10	584	.07
Interest rate swap net settlements	--	--	2,727	.30
Net interest margin excluding impact of hedge accounting entries	$34,738	3.46%	$30,654	3.41%

For additional information on net interest income components, refer to "Average Balances, Interest Rates and Yields" table in this Quarterly Report on Form 10-Q. This table is prepared including the impact of the accounting changes for interest rate swaps.

Provision for Loan Losses and Allowance for Loan Losses

The provision for loan losses increased $450,000 from $975,000 during the three months ended June 30, 2005 to $1.4 million during the three months ended June 30, 2006. The allowance for loan losses increased $308,000, or 1.2%, to $25.5 million at June 30, 2006 compared to $25.2 million at March 31, 2006. Net charge-offs were $1.1 million in the three months ended June 30, 2006 versus $663,000 in the three months ended June 30, 2005.

The provision for loan losses increased $875,000 from $1.9 million during the six months ended June 30, 2005 to $2.8 million during the six months ended June 30, 2006. The allowance for loan losses increased $982,000, or 4.0%, to $25.5 million at June 30, 2006 compared to $24.5 million at December 31, 2005. Net charge-offs were $1.8 million in the six months ended June 30, 2006 versus $1.0 million in the six months ended June 30, 2005.

Management records a provision for loan losses in an amount it believes sufficient to result in an allowance for loan losses that will cover current net charge-offs as well as risks believed to be inherent in the loan portfolio of the Bank. The amount of provision charged against current income is based on several factors, including, but not limited to, past loss experience, current portfolio mix, actual and potential losses

identified in the loan portfolio, economic conditions, regular reviews by internal staff and regulatory examinations.

Weak economic conditions, higher inflation or interest rates, or other factors may lead to increased losses in the portfolio. Management has established various controls in an attempt to limit future losses, such as a watch list of possible problem loans, documented loan administration policies and a loan review staff to review the quality and anticipated collectibility of the portfolio. Management determines which loans are potentially uncollectible, or represent a greater risk of loss and makes additional provisions to expense, if necessary, to maintain the allowance at a satisfactory level.

NEXT PAGE

The Bank's allowance for loan losses as a percentage of total loans was 1.52%, 1.54% and 1.59% at June 30, 2006, March 31, 2006 and December 31, 2005, respectively. The reduction in this percentage was due to growth in the Company's loan portfolio as the allowance for loan losses increased $982,000 during the six months ended June 30, 2006. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at this time, based on current economic conditions. If economic conditions deteriorate significantly, it is possible that additional assets would be classified as non-performing, and accordingly, additional provision for losses would be required, thereby adversely affecting future results of operations and financial condition.

Non-performing Assets

As a result of continued growth in the loan portfolio, changes in economic and market conditions that occur from time to time, and other factors specific to a borrower's circumstances, the level of non-performing assets will fluctuate. Non-performing assets at June 30, 2006, were $26.2 million, up $9.4 million from December 31, 2005, and up $3.0 million from March 31, 2006. Non-performing assets as a percentage of total assets were 1.17% at June 30, 2006. Compared to December 31, 2005, non-performing loans increased $8.9 million to $25.1 million while foreclosed assets increased $486,000 to $1.1 million. Commercial real estate, construction and business loans comprised $24.0 million, or 95%, of the total $25.1 million of non-performing loans at June 30, 2006.

Non-performing Loans. Compared to December 31, 2005, non-performing loans increased $8.9 million to $25.1 million. The increase in non-performing loans during the quarter ended June 30, 2006, was primarily due to the addition of one $1.3 million loan relationship and the increase by $1.6 million of one loan relationship (now totaling $5.3 million) to the non-performing category. Other increases in non-performing loans during the six months ended June 30, 2006, were primarily due to the addition of one $3.1 million loan relationship and the increase by $3.9 million of one loan relationship (now totaling $5.3 million) to the non-performing category. This increase was partially offset by the repayment of one $640,000 relationship which was included in non-performing assets at December 31, 2005, and the reduction of another relationship by $1.1 million through the sale of a portion of the assets securing the debt, resulting in a remaining relationship total of $946,000 at June 30, 2006. Five additional significant loan relationships were previously included in Non-performing Loans and remained there at June 30, 2006. These relationships are described more fully in the December 31, 2005, Annual Report on Form 10-K.

The $1.3 million loan relationship was placed in the *Non-performing Loans* category during the quarter ended June 30, 2006. This relationship is primarily secured by subdivision lots, houses under construction and commercial real estate lots in the Lake of the Ozarks, Missouri, area.

Originally included in non-performing loans as $3.7 million (now totaling $5.3 million), $1.6 million was added to the *Non-performing Loans* category from the *Potential Problem Loans* category during the three months ended June 30, 2006. The $3.7 million portion of this relationship is secured by a nursing home in Missouri that has had cash flow problems. The additional $1.6 million is secured by a second nursing home in the Springfield, Missouri, area. This second nursing home has performed satisfactorily; however, due to the performance issues of the other property, the entire relationship has now been categorized as non-performing.

NEXT PAGE

The $3.1 million loan relationship was placed in the *Non-performing Loans* category during the quarter ended March 31, 2006. At December 31, 2005, this relationship was included in the *Potential Problem Loans* category and was described more fully in the December 31, 2005, Annual Report on Form 10-K. This relationship is secured by a motel and additional real estate collateral.

The $5.3 million relationship was discussed in the December 31, 2005 Annual Report on Form 10-K, where $1.5 million was included in the *Non-performing Loans* category and $6.2 million was included in the *Potential Problem Loans* category. This relationship is secured by an office building, vacant land, developed and undeveloped residential subdivisions, houses under construction and houses used as rental

property. The Company determined that the transfer of this portion of the relationship to the *Non-performing Loans* category was warranted due to continued deterioration of payment performance. During the three months ended March 31, 2006, the Company recorded a charge-off of $283,000 on this relationship. In addition, during the three months ended June 30, 2006, the borrower sold some of the commercial real estate and subdivision lots. The proceeds of these sales were used to reduce loan balances from $6.2 million to $5.3 million.

Four additional unrelated credit relationships which were included in non-performing loan totals at December 31, 2005, and remain non-performing loans at June 30, 2006, are discussed below. The first relationship totals $1.4 million and is secured by commercial real estate and equipment of two restaurants - one in Springfield and one in central Missouri. Both restaurants have been closed and the buildings and land are currently offered for sale. The second relationship totals $845,000 and is secured primarily by a mobile home park in the Kansas City, Missouri, metropolitan area and other commercial real estate collateral. The third relationship totals $974,000 and is secured primarily by the receivables, inventory, equipment and other business assets of a home building materials company in Springfield, Missouri. The fourth relationship totals $879,000 and is secured by a motel near Branson, Missouri and a commercial building in Springfield, Missouri. At June 30, 2006, the nine relationships described above accounted for $20.1 million of the non-performing loan total.

Foreclosed Assets. Of the total $1.1 million of foreclosed assets at June 30, 2006, foreclosed real estate totaled $695,000 and repossessed automobiles, boats and other personal property totaled $386,000. During the latter portion of 2005, the Company sold almost all of its foreclosed real estate assets in separate transactions to unrelated buyers.

31

NEXT PAGE

Potential Problem Loans. Potential problem loans decreased $8.7 million during the six months ended June 30, 2006 from $18.4 million at December 31, 2005 to $9.7 million at June 30, 2006. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems which may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in the non-performing assets. During the six months ended June 30, 2006, potential problem loans decreased primarily due to the transfer to the non-performing loan category of portions of four unrelated loan relationships which were discussed above. At June 30, 2006, four large unrelated relationships make up the majority of the potential problem loan category. The first two of these relationships were described in the December 31, 2005 Annual Report on Form 10-K under the *Potential Problem Loans* category and the last two of these relationships were added to the *Potential Problem Loans* category during the quarter ended June 30, 2006. The first relationship totals $1.2 million (with an additional $5.3 million included in *Non-performing Loans*) and is secured primarily by single-family houses used as rental property and homes for sale in the Branson, Missouri, area. These loans are not included in the relationship's non-performing totals due to adequate payment performance and income production realized by the borrower on these properties. The second relationship totals $3.1 million and is secured primarily by a townhome development in the Kansas City, Missouri, area. The project has experienced cash flow problems recently due to vacancies in some of the units. Several of the tenants were military personnel who have been redeployed to other locations. The project is currently offered for sale. The third relationship totals $1.8 million and is secured primarily by a motel in Branson, Missouri. The fourth relationship totals $777,000 and is secured primarily by two motels in Texas and another motel in Arkansas. At June 30, 2006, the four significant relationships described above accounted for $6.9 million of the potential problem loan total.

Non-interest Income

Including the effects of the Company's restatement in 2005 for certain interest rate swaps, total non-interest income decreased $5.7 million in the three months ended June 30, 2006 when compared to the three months ended June 30, 2005. Non-interest income for the second quarter of 2006 was $7.4 million compared with $13.1 million for the second quarter 2005. The decrease in non-interest income was primarily attributable to the effects of the accounting change for interest rate swaps on the prior period results. Non-interest income increased $5.5 million in the three months ended June 30, 2005, and increased $690,000 in the three months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps. In addition, non-interest income for the second quarter of 2005 was also impacted by the reclassification of the net interest settlements on these swaps from net interest income to non-interest income. While this had no effect on total net income, non-interest income was increased by $1.1 million in the three months ended June 30, 2005. There was no reclassification of net interest settlements in the three months ended June 30, 2006. Excluding the effects of interest rate swap-related entries, non-interest income increased $325,000, or 5%, in the three months ended June 30, 2006, compared to the three months ended June 30, 2005.

For the three months ended June 30, 2006, income from commissions from the Company's travel, insurance and investment divisions increased $167,000, or 7%, compared to the same period in 2005. Increases in commission revenues occurred primarily in the travel division. In the latter half of 2003, the Company acquired two travel agencies in the Springfield, Missouri market. These two additions, along with organic growth in our existing travel operations, have led to increased revenue in both the leisure and corporate travel areas. In August 2005, the Company completed its acquisition of a travel company in Columbia, Missouri, and in January 2006, the Company completed its acquisition of a travel company in Lee's Summit, Missouri. The operations of these travel companies are now included in the operating results of the Company. During the quarter ending September 30, 2006, the Company plans to complete its acquisition of a second travel company in Columbia, Missouri. Service charges on deposit accounts and ATM fees increased $296,000, or 9%, compared to the same period in 2005. In 2006 the

Company increased some of its per-item charges on certain account activities. In addition, a portion of the fee increase is attributed to growth in accounts to which charges may apply.

NEXT PAGE

Including the effects of the Company's restatement in 2005 for certain interest rate swaps, total non-interest income decreased $1.4 million in the six months ended June 30, 2006 when compared to the six months ended June 30, 2005. Non-interest income for the first six months of 2006 was $14.6 million compared with $16.0 million for the first six months of 2005. The decrease in non-interest income was primarily attributable to the effects of the accounting change for interest rate swaps on the prior period results. Non-interest income increased $982,000 in the six months ended June 30, 2005, and increased $482,000 in the six months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps. In addition, non-interest income for the first six months of 2005 was also impacted by the reclassification of the net interest settlements on these swaps from net interest income to non-interest income. While this had no effect on total net income, non-interest income was increased by $2.7 million in the six months ended June 30, 2005. There was no reclassification of net interest settlements in the six months ended June 30, 2006. Excluding the effects of interest rate swap-related entries, non-interest income increased $1.8 million, or 15%, in the six months ended June 30, 2006, compared to the six months ended June 30, 2005.

For the six months ended June 30, 2006, income from commissions from the Company's travel, insurance and investment divisions increased $464,000, or 10%, compared to the same period in 2005. Increases in commission revenues occurred primarily in the travel division for the reasons stated above. Service charges on deposit accounts and ATM fees increased $617,000, or 10%, compared to the same period in 2005. Also in the six months ended June 30, 2006, the Company experienced an increase in prepayment fees on loans of $563,000 compared to the same period in 2005. This was primarily the result of the early repayment of five unrelated loans during the quarter ended March 31, 2006. Although the Company does receive prepayment fees from time to time, it is difficult to forecast when and in what amounts fees will be collected.

Non-interest Expense

Total non-interest expense increased $1.3 million, or 12.5%, in the three months ended June 30, 2006, when compared to the three months ended June 30, 2005. The increase was primarily due to: (i) an increase of $963,000, or 15.5%, in salaries and employee benefits and (ii) smaller increases and decreases in other non-interest expense areas, such as occupancy and equipment expense, postage, advertising, insurance, telephone, legal and professional fees, and bank charges and fees related to additional correspondent relationships.

The Company's increase in non-interest expense in the second quarter of 2006 compared to the same period in 2005 related to the continued growth of the Company. During the latter half of 2005, Great Southern completed its acquisition of three bank branches in central Missouri, acquired a Columbia, Missouri-based travel agency, and opened a banking center in Republic, Missouri. In the first quarter 2006, Great Southern acquired a travel agency in Lee's Summit, Missouri, and established a new loan production office in Columbia, Missouri. As a result, in the three months ended June 30, 2006, compared to the three months ended June 30, 2005, non-interest expenses increased $475,000 related to the ongoing operations of these entities. In addition to these acquisitions and new office, the Company expanded the loan production offices in St. Louis and Rogers, Ark., and added lending and lending support personnel in the Springfield market. Consistent with many other employers, the cost of health insurance premiums and other benefits for the Company continues to rise and added $285,000 in expenses in the second quarter of 2006 compared to the same quarter in 2005. Effective July 1, 2006, the Company will reduce the benefits which may be earned by current employees in future periods under the Company's multi-employer defined benefit pension plan. In addition, employees hired after June 30, 2006, will not accrue any benefits under this plan. The Company expects that these steps will reduce the Company's expense related to this plan by approximately $400,000 - 500,000 annually beginning in 2007. The savings achieved by taking these steps may be offset by other expenses associated with this plan, including, without limitation, additional Company contributions that may be necessary from time to time to ensure the plan is adequately funded and by a planned increase in the matching portion of the Company's 401(k) plan for all eligible participants.

NEXT PAGE

As a result of the adoption of FAS 123(R) effective January 1, 2006, during the quarter ended June 30, 2006, the Company also recorded expenses of $114,000, or $.01 per diluted share, related to the cost of stock options previously granted by the Company. No corresponding expense was recorded in 2005.

Total non-interest expense increased $2.5 million, or 11.9%, in the six months ended June 30, 2006, when compared to the six months ended June 30, 2005. The increase was primarily due to: (i) an increase of $1.8 million, or 14.5%, in salaries and employee benefits; (ii) an increase of $353,000, or 10.2%, in net occupancy and equipment expense; and (iii) smaller increases and decreases in other non-interest expense

areas, such as postage, advertising, insurance, telephone, legal and professional fees, and bank charges and fees related to additional correspondent relationships.

The Company's increase in non-interest expense in the first six months of 2006 compared to the same period in 2005 related to the continued growth of the Company. As noted above, during the latter half of 2005, Great Southern completed its acquisition of three bank branches in central Missouri, acquired a Columbia, Missouri-based travel agency, and opened a banking center in Republic, Missouri, and in the first quarter of 2006, acquired a travel agency in Lee's Summit, Missouri, and established a new loan production office in Columbia, Missouri. As a result, in the six months ended June 30, 2006, compared to the six months ended June 30, 2005, non-interest expenses increased $873,000 related to the ongoing operations of these entities. In addition to these acquisitions and new office, the Company expanded the loan production offices in St. Louis and Rogers, Arkansas, and added lending and lending support personnel in the Springfield market. The cost of health insurance premiums and other benefits for the Company added $585,000 in expenses in the first six months of 2006 compared to the same period in 2005.

As a result of the adoption of FAS 123(R) effective Janaury 1, 2006, during the six months ended June 30, 2006, the Company also recorded expenses of $229,000, or $.02 per diluted share, related to the cost of stock options previously granted by the Company. No corresponding expesne was recorded in 2005.

Provision for Income Taxes

Provision for income taxes as a percentage of pre-tax income decreased from 33.0% for the three months ended June 30, 2005, to 31.7% for the three months ended June 30, 2006. The lower effective tax rate in 2006 was the result of a higher level of tax-exempt income relative to overall net income. For future periods, the Company expects the effective tax rate to be in the range of 30-33% of pre-tax income.

Provision for income taxes as a percentage of pre-tax income increased slightly from 32.1% for the six months ended June 30, 2005, to 32.2% for the six months ended June 30, 2006.

34

NEXT PAGE

Average Balances, Interest Rates and Yields

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Average balances of loans receivable include the average balances of non-accrual loans for each period. Interest income on loans includes interest received on non-accrual loans on a cash basis. Interest income on loans includes the amortization of net loan fees, which were deferred in accordance with accounting standards. Fees included in interest income were $703,000 and $485,000 for the three months ended June 30, 2006 and 2005, respectively. Fees included in interest income were $1.3 million and $870,000 for the six months ended June 30, 2006 and 2005, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable:						
One- to four-family residential	$176,921	$2,997	6.79%	$184,003	$2,486	5.42%
Other residential	94,151	1,913	8.15	118,837	2,063	6.96
Commercial real estate	463,615	9,297	8.04	462,113	7,733	6.71
Construction	593,175	12,339	8.34	371,513	6,133	6.69
Commercial business	112,882	2,439	8.66	100,163	1,670	6.62

Other loans	139,108	2,602	7.50	136,285	2,339	6.88
Industrial revenue bonds(1)	73,166	1,327	7.27	53,103	812	6.14
Total loans receivable	1,653,018	32,914	7.99	1,426,017	23,236	6.54
Investment securities and other interest-earning assets(1)	396,959	4,314	4.36	421,249	4,302	4.10
Total interest-earning assets	2,049,977	37,228	7.28	1,847,266	27,538	5.98
Noninterest-earning assets:						
Cash and cash equivalents	97,739			95,877		
Other non-earning assets	39,733			24,351		
Total assets	$2,187,449			$1,967,494		
Interest-bearing liabilities:						
Interest-bearing demand and savings	$ 422,964	3,087	2.93	$ 383,774	1,901	1.99
Time deposits	1,019,418	12,935	5.09	852,028	8,109	3.82
Total deposits	1,442,382	16,022	4.46	1,235,802	10,010	3.25
Short-term borrowings	132,196	1,414	4.29	163,562	1,179	2.89
Subordinated debentures issued to capital trust	17,788	317	7.15	18,378	235	5.13
FHLB advances	215,057	2,352	4.39	225,292	2,100	3.74
Total interest-bearing liabilities	1,807,423	20,105	4.46	1,643,034	13,524	3.30
Noninterest-bearing liabilities:						
Demand deposits	190,802			166,571		
Other liabilities	30,986			10,580		
Total liabilities	2,029,211			1,820,185		
Stockholders' equity	158,238			147,309		
Total liabilities and stockholders' equity	$2,187,449			$1,967,494		
Net interest income:						
Interest rate spread		$17,123	2.82%		$14,014	2.68%
Net interest margin*			3.35%			3.04%

Average interest-earning assets to average interest-bearing liabilities	113.4%	112.4%

____

*Defined as the Company's net interest income divided by total interest-earning assets.

(1) Of the total average balances of investment securities, average tax-exempt investment securities were $64.5 million and $56.2 million for the three months ended June 30, 2006 and 2005, respectively. In addition, average tax-exempt industrial revenue bonds were $22.7 million and $19.6 million for the three months ended June 30, 2006 and 2005, respectively. Interest income on tax-exempt assets included in this table was $1.0 million and $850,000 for the three months ended June 30, 2006 and 2005, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was $641,000 and $639,000 for the three months ended June 30, 2006 and 2005, respectively.

35

NEXT PAGE

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable:						
One- to four-family residential	$176,648	$5,873	6.70%	$178,386	$4,766	5.39%
Other residential	96,529	3,910	8.17	118,770	4,066	6.90
Commercial real estate	460,796	17,887	7.83	463,447	14,801	6.44
Construction	568,458	23,073	8.19	350,448	11,146	6.52
Commercial business	106,308	4,435	8.41	102,224	3,304	6.41
Other loans	139,316	5,089	7.37	133,227	4,545	6.88
Industrial revenue bonds(1)	70,385	2,448	7.01	49,875	1,553	6.28
Total loans receivable	1,618,440	62,715	7.81	1,396,377	44,181	6.38
Investment securities and other interest-earning assets(1)	408,606	8,710	4.30	416,448	8,358	4.05
Total interest-earning assets	2,027,046	71,425	7.10	1,812,825	52,539	5.84
Noninterest-earning assets:						
Cash and cash equivalents	99,147			90,349		
Other non-earning assets	36,471			23,931		
Total assets	$2,162,664			$1,927,105		

Interest-bearing liabilities:						
Interest-bearing demand and savings	$ 435,888	6,278	2.90	$ 380,123	3,503	1.86
Time deposits	992,716	23,501	4.77	829,424	15,132	3.68
Total deposits	1,428,604	29,779	4.20	1,209,547	18,635	3.11
Short-term borrowings	140,303	2,905	4.18	166,935	2,260	2.73
Subordinated debentures issued to capital trust	17,888	602	6.79	18,468	445	4.86
FHLB advances	204,469	4,384	4.32	215,715	3,856	3.60
Total interest-bearing liabilities	1,791,264	37,670	4.24	1,610,665	25,196	3.15
Noninterest-bearing liabilities:						
Demand deposits	186,180			159,890		
Other liabilities	27,688			11,234		
Total liabilities	2,005,132			1,781,789		
Stockholders' equity	157,532			145,316		
Total liabilities and stockholders' equity	$2,162,664			$1,927,105		
Net interest income:						
Interest rate spread		$33,755	2.86%		$27,343	2.69%
Net interest margin*			3.36%			3.04%
Average interest-earning assets to average interest-bearing liabilities	113.2%			112.6%		

*Defined as the Company's net interest income divided by total interest-earning assets.

(1) Of the total average balances of investment securities, average tax-exempt investment securities were $63.6 million and $51.7 million for the six months ended June 30, 2006 and 2005, respectively. In addition, average tax-exempt industrial revenue bonds were $22.2 million and $19.5 million for the six months ended June 30, 2006 and 2005, respectively. Interest income on tax-exempt assets included in this table was $2.0 million and $1.7 million for the six months ended June 30, 2006 and 2005, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was $1.4 million and $1.4 million for the six months ended June 30, 2006 and 2005, respectively.

NEXT PAGE

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods shown. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (i.e., changes in rate multiplied by old volume) and (ii) changes in volume (i.e., changes in volume multiplied by old rate). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to volume and rate. Tax-exempt income was not calculated on a tax equivalent basis.

	Three Months Ended June 30, 2006 vs. 2005		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest-earning assets:			

37

NEXT PAGE

	Six Months Ended June 30, 2006 vs. 2005		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest-earning assets:			

38

NEXT PAGE

Liquidity and Capital Resources

Liquidity is a measure of the Company's ability to generate sufficient cash to meet present and future financial obligations in a timely manner through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. These obligations include the credit needs of customers, funding deposit withdrawals, and the day-to-day operations of the Company. Liquid assets include cash, interest-bearing deposits with financial institutions and certain investment securities and loans. As a result of the Company's management of the ability to generate liquidity primarily through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs. At June 30, 2006, the Company had commitments of approximately $46.3 million to fund loan originations, $377.9 million of unused lines of credit and unadvanced loans, and $25.5 million of outstanding letters of credit.

Management continuously reviews the capital position of the Company and the Bank to ensure compliance with minimum regulatory requirements, as well as exploring ways to increase capital either by retained earnings or other means.

The Company's stockholders' equity was $159.5 million, or 7.1% of total assets of $2.24 billion at June 30, 2006, compared to equity of $152.8 million, or 7.3%, of total assets of $2.08 billion at December 31, 2005.

Banks are required to maintain minimum risk-based capital ratios. These ratios compare capital, as defined by the risk-based regulations, to assets adjusted for their relative risk as defined by the regulations. Guidelines require banks to have a minimum Tier 1 risk-based capital ratio, as defined, of 4.00%, a minimum total risk-based capital ratio of 8.00%, and a minimum 4.00% Tier 1 leverage ratio. To be considered "well capitalized," banks must have a minimum Tier 1 risk-based capital ratio, as defined, of 6.00%, a minimum total risk-based capital ratio of 10.00%, and a minimum 5.00% Tier 1 leverage ratio. On June 30, 2006, the Bank's Tier 1 risk-based capital ratio was 9.75%, total risk-based capital ratio was 11.01% and the Tier 1 leverage ratio was 8.18%. As of June 30, 2006, the Bank was "well capitalized" as defined by the Federal banking agencies' capital-related regulations. The Federal Reserve Bank has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On June 30, 2006, the Company's Tier 1 risk-based capital ratio was 9.88%, total risk-based capital ratio was 11.14% and the leverage ratio was 8.30%. As of June 30, 2006, the Company was "well capitalized" as defined by the Federal banking agencies' capital-related regulations.

At June 30, 2006, the held-to-maturity investment portfolio included no gross unrealized losses and gross unrealized gains of $60,000.

The Company's primary sources of funds are certificates of deposit, FHLBank advances, other borrowings, loan repayments, proceeds from sales of loans and available-for-sale securities and funds provided from operations. The Company utilizes particular sources of funds based on the comparative costs and availability at the time. The Company has from time to time chosen not to pay rates on deposits as high as the rates paid by certain of its competitors and, when believed to be appropriate, supplements deposits with less expensive alternative sources of funds.

NEXT PAGE

Statements of Cash Flows. During the six months ended June 30, 2006 and 2005, respectively, the Company had positive cash flows from operating activities and positive cash flows from financing activities. The Company experienced negative cash flows from investing activities during each of these same time periods.

Cash flows from operating activities for the periods covered by the Statements of Cash Flows have been primarily related to changes in accrued and deferred assets, credits and other liabilities, the provision for loan losses, depreciation, and the amortization of deferred loan origination fees and discounts (premiums) on loans and investments, all of which are non-cash or non-operating adjustments to operating cash flows. Net income adjusted for non-cash and non-operating items and the origination and sale of loans held for sale were the primary source of cash flows from operating activities. Operating activities provided cash flows of $19.2 million during the six months ended June 30, 2006, and $14.3 million during the six months ended June 30, 2005.

During the six months ended June 30, 2006 and 2005, investing activities used cash of $148.1 million and $152.9 million, respectively, primarily due to the net increase of loans in each period.

Changes in cash flows from financing activities during the periods covered by the Statements of Cash Flows are due to changes in deposits after interest credited, changes in FHLBank advances and changes in short-term borrowings, as well as purchases of treasury stock and dividend payments to stockholders. Financing activities provided $150.2 million during the six months ended June 30, 2006 and $144.0 million during the six months ended June 30, 2005. Financing activities in the future are expected to primarily include changes in deposits, changes in FHLBank advances, changes in short-term borrowings, stock repurchases and dividend payments to stockholders.

Dividends. During the three months ended June 30, 2006, the Company declared a dividend of $0.15 per share (which was paid in July 2006), or 28% of net income per diluted share, and paid dividends of $0.14 per share (which was declared in March 2006). During the three months ended June 30, 2005, the Company declared a dividend of $0.13 (which was paid in July 2005), or 18% of net income per diluted share, and paid dividends of $0.12 (which was declared in March 2005).

During the six months ended June 30, 2006, the Company declared dividends of $0.29 per share, or 27% of net income per diluted share, and paid a dividend of $0.28 per share. During the six months ended June 30, 2005, the Company declared dividends of $0.25, or 26% of net income per diluted share, and paid dividends of $0.24 per share.

Common Stock Repurchases and Issuances. The Company has been in various buy-back programs since May 1990. During the three months ended June 30, 2006, the Company repurchased 79,354 shares of its common stock at an average price of $26.16 per share and issued 18,698 shares of stock at an average price of $11.53 per share to cover stock option exercises. During the three months ended June 30, 2005, the Company repurchased 15,028 shares of its common stock at an average price of $28.89 per share and issued 4,708 shares of stock at an average price of $11.97 per share to cover stock option exercises.

During the six months ended June 30, 2006, the Company repurchased 99,613 shares of its common stock at an average price of $26.57 per share and issued 43,987 shares of stock at an average price of $13.24 per share to cover stock option exercises. During the six months ended

June 30, 2005, the Company repurchased 21,182 shares of its common stock at an average price of $30.76 per share and issued 23,781 shares of stock at an average price of $9.58 per share to cover stock option exercises.

NEXT PAGE

Management intends to continue its stock buy-back programs from time to time as long as repurchasing the stock contributes to the overall growth of shareholder value. The number of shares of stock that will be repurchased and the price that will be paid is the result of many factors, several of which are outside of the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time and the price of the stock within the market as determined by the market.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management and Market Risk

A principal operating objective of the Company is to produce stable earnings by achieving a favorable interest rate spread that can be sustained during fluctuations in prevailing interest rates. The Company has sought to reduce its exposure to adverse changes in interest rates by attempting to achieve a closer match between the periods in which its interest-bearing liabilities and interest-earning assets can be expected to reprice through the origination of adjustable-rate mortgages and loans with shorter terms to maturity and the purchase of other shorter term interest-earning assets.

Our Risk When Interest Rates Change

The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is Great Southern's most significant market risk.

How We Measure the Risk To Us Associated with Interest Rate Changes

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Great Southern's interest rate risk. In monitoring interest rate risk we regularly analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to actual or potential changes in market interest rates.

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing during the same period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods would adversely affect net interest income, while a positive gap within shorter repricing periods would result in an increase in net interest income. During a period of falling interest rates, the opposite would be true. As of June 30, 2006, Great Southern's internal interest rate risk models indicate a one-year interest rate sensitivity gap that is slightly negative.

NEXT PAGE

Interest rate risk exposure estimates (the sensitivity gap) are not exact measures of an institution's actual interest rate risk. They are only indicators of interest rate risk exposure produced in a simplified modeling environment designed to allow management to gauge the Bank's sensitivity to changes in interest rates. They do not necessarily indicate the impact of general interest rate movements on the Bank's net interest income because the repricing of certain categories of assets and liabilities is subject to competitive and other factors beyond the Bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may in fact mature or reprice at different times and in different amounts and cause a change, which could be material, in the Bank's interest rate risk.

In order to minimize the potential for adverse effects of material and prolonged increases and decreases in interest rates on Great Southern's results of operations, Great Southern has adopted asset and liability management policies to better match the maturities and repricing

terms of Great Southern's interest-earning assets and interest-bearing liabilities. Management recommends and the Board of Directors sets the asset and liability policies of Great Southern which are implemented by the asset and liability committee. The asset and liability committee is chaired by the Chief Financial Officer and is comprised of members of Great Southern's senior management. The purpose of the asset and liability committee is to communicate, coordinate and control asset/liability management consistent with Great Southern's business plan and board-approved policies. The asset and liability committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The asset and liability committee meets on a monthly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital positions and anticipated changes in the volume and mix of assets and liabilities. At each meeting, the asset and liability committee recommends appropriate strategy changes based on this review. The Chief Financial Officer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Board of Directors at their monthly meetings.

In order to manage its assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, Great Southern has focused its strategies on originating adjustable rate loans, and managing its deposits and borrowings to establish stable relationships with both retail customers and wholesale funding sources.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, we may determine to increase our interest rate risk position somewhat in order to maintain or increase our net interest margin.

The asset and liability committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of Great Southern.

NEXT PAGE

The Company uses interest rate swap derivatives to help manage its interest rate risks from recorded financial liabilities. These derivative instruments are utilized when they can be demonstrated to effectively hedge a designated asset or liability and such asset or liability exposes the Company to interest rate risk. Interest rate swaps are carried at fair value, estimated using quoted dealer prices, and are recognized in the statement of financial condition in the prepaid expenses and other assets caption or the accounts payable and accrued expenses caption depending upon whether the fair value balance is a net debit or credit to the Company. Amounts to be paid or received under interest rate swaps are accounted for on the accrual basis and recognized as interest income or expense of the related liability. Gains and losses on early termination of these instruments are deferred and amortized as an adjustment to the yield on the related liability over the shorter of the remaining contract life or the maturity of the related asset or liability. If the related liability is sold or otherwise liquidated, the instrument is marked to market, with the resultant gains and losses recognized in noninterest income.

The Company has entered into interest rate swap agreements with the objective of hedging against the effects of changes in the fair value of its liabilities for fixed rate brokered certificates of deposit and subordinated debentures issued to capital trust caused by changes in market interest rates. The swap agreements generally provide for the Company to pay a variable rate of interest based on a spread to the one-month or three-month London Interbank Offering Rate (LIBOR) and to receive a fixed rate of interest equal to that of the hedged instrument. Under the swap agreements the Company is to pay or receive interest monthly, quarterly, semiannually or at maturity.

NEXT PAGE

In addition to the disclosures previously made by the Company in the December 31, 2005, Annual Report on Form 10-K, the following table summarizes interest rate sensitivity information for the Company's interest rate derivatives at June 30, 2006.

	Fixed to Variable	Average Pay Rate	Average Receive Rate
Interest Rate Derivatives	(In Millions)		
Interest Rate Swaps:			

Expected Maturity Date			
2006	$ 30.0	5.14%	4.50%
2007	109.8	5.04	4.32
2008	17.4	5.08	4.20
2009	69.4	5.20	4.03
2010	24.2	5.29	3.62
2011	41.7	5.15	3.80
2012	12.6	5.23	4.81
2013	43.0	5.28	4.17
2014	26.1	5.19	4.06
2015	29.5	5.32	4.16
2016	34.2	5.22	5.21
2017	16.6	5.31	5.27
2018	4.8	5.03	4.00
2019	57.4	5.27	4.66
2020	14.9	5.14	4.00
2023	7.8	5.04	5.10
2031	17.3	7.52	9.00
Total Notional Amount	$556.7	5.25%	4.46%
Fair Value Adjustment Asset (Liability)	$ (19.2)		

44

NEXT PAGE

ITEM 4. CONTROLS AND PROCEDURES

An evaluation of our disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out as of June 30, 2006, under the supervision and with the participation of our principal executive officer, principal financial officer and several other members of our senior management. Our principal executive officer and principal financial officer concluded that, as of June 30, 2006, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including our principal executive officer and principal 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 were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our disclosure controls and procedures and internal control over financial reporting 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 in controls or procedures can occur because of 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.

NEXT PAGE

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing pending and threatened litigation with counsel, management believes at this time that the outcome of such litigation will not have a material adverse effect on the results of operations or stockholders' equity. We are not able to predict at this time whether the outcome of such actions may or may not have a material adverse effect on the results of operations in a particular future period as the timing and amount of any resolution of such actions and its relationship to the future results of operations are not known.

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 December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 26, 2000, the Company's Board of Directors authorized management to repurchase up to 400,000 shares of the Company's outstanding common stock, under a program of open market purchases or privately negotiated transactions. The plan does not have an expiration date. Information on the shares purchased during the second quarter of 2006 is as follows.

	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan(1)
April 1, 2006 - April 30, 2006	761	$28.05	761	174,147
May 1, 2006 - May 31, 2006	38,593	$26.99	38,593	135,554
June 1, 2006 - June 30, 2006	40,000	$25.31	40,000	95,554
	79,354	$26.16	79,354	

(1) Amount represents the number of shares available to be repurchased under the plan as of the last calendar day of the month shown.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to Vote of Common Stockholders

a) On May 17, 2006, the Company held its Annual Meeting of Stockholders. The results of that meeting are as follows:

NEXT PAGE

1) There were 12,722,657 shares entitled to vote at said meeting.

2) Thomas J. Carlson received 12,248,978 votes for director and Joseph W. Turner received 12,282,904 votes for director. Votes withheld were 381,787 for Mr. Carlson and 348,161 for Mr. J. Turner. There were no broker non-votes with respect to this proposal.

3) The stockholders approved the proposal to ratify the engagement of BKD,LLP as the Company's Independent Auditor for 2006. The vote was as follows: For - 12,572,922; Against - 39,613; Abstain - None. There were no broker non-votes with respect to this proposal.

Item 5. Other Information

None.

Item 6. Exhibits and Financial Statement Schedules

a) Exhibits

See Exhibit Index.

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.

Great Southern Bancorp, Inc.
Registrant

Date: August 9, 2006 /s/ Joseph W. Turner

Joseph W. Turner
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2006 /s/ Rex A. Copeland

Rex A. Copeland
Treasurer
(Principal Financial and Accounting Officer)

NEXT PAGE

Exhibit Index

Exhibit No.	Description
(2)	Plan of acquisition, reorganization, arrangement, liquidation, or succession
	Inapplicable.

(3) Articles of incorporation and Bylaws

(i) The Registrant's Charter previously filed with the Commission as Appendix D to the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 31, 2004 (File No. 000-18082), is incorporated herein by reference as Exhibit 3.1.

(ii) The Registrant's Bylaws, previously filed with the Commission (File no. 000-18082) as Appendix E to the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 31, 2004, is incorporated herein by reference as Exhibit 3.2.

(4) Instruments defining the rights of security holders, including indentures

The Company hereby agrees to furnish the Commission upon request, copies of the instruments defining the rights of the holders of each issue of the Registrant's long-term debt.

(9) Voting trust agreement

Inapplicable.

(10) Material contracts

The Registrant's 1989 Stock Option and Incentive Plan previously filed with the Commission (File no. 000-18082) as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990, is incorporated herein by reference as Exhibit 10.1.

The Registrant's 1997 Stock Option and Incentive Plan previously filed with the Commission (File no. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on September 18, 1997 is incorporated herein by reference as Exhibit 10.2.

The Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission (File No. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April

14, 2003, is incorporated herein by reference as Exhibit 10.3.

The employment agreement dated September 18, 2002 between the Registrant and William V. Turner previously filed with the Commission (File no. 000-18082) as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.4.

The employment agreement dated September 18, 2002 between the Registrant and Joseph W. Turner previously filed with the Commission (File no. 000-18082) as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.5.

The form of incentive stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.6.

The form of non-qualified stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.7.

A description of the salary and bonus arrangements for 2005 for the Registrant's named executive officers previously filed with the Commission as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 is incorporated herein by reference as Exhibit 10.8.

A description of the current fee arrangements for the Registrant's directors previously filed

with the Commission as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 is incorporated herein by reference as Exhibit 10.9.

NEXT PAGE

Exhibit Index (Continued)

Exhibit No.	Description
(11)	Statement re computation of per share earnings
	Attached as Exhibit 11.

NEXT PAGE