

GREAT SOUTHERN BANCORP INC  
Form 10-K  
March 16, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State of Incorporation)

43-1524856  
(IRS Employer Identification Number)

1451 E. Battlefield, Springfield, Missouri  
(Address of Principal Executive Offices)

65804  
(Zip Code)

(417) 887-4400  
Registrant's telephone number, including area code

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicated by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

information statements incorporated by reference in Part III of this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ](Do not check if a smaller reporting company) Smaller reporting company [ ]

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

Yes [ ] No [X]

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on June 30, 2008, computed by reference to the closing price of such shares on that date, was \$81,582,321. At March 13, 2009, 13,380,969 shares of the Registrant's common stock were outstanding.

## TABLE OF CONTENTS

	Page
ITEM 1. BUSINESS	1
Great Southern Bancorp, Inc.	1
Great Southern Bank	1
Forward-Looking Statements	2
Internet Website	2
Primary Market Area	2
Lending Activities	3
Loan Portfolio Composition	5
Environmental Issues	7
Residential Real Estate Lending	8
Commercial Real Estate and Construction Lending	8
Other Commercial Lending	10
Consumer Lending	10
Originations, Purchases, Sales and Servicing of Loans	11
Loan Delinquencies and Defaults	13
Classified Assets	14
Non-Performing Assets	14
Allowances for Losses on Loans and Foreclosed Assets	16
Investment Activities	18
Sources of Funds	24
Subsidiaries	31
Competition	32
Employees	33
Government Supervision and Regulation	33
Federal and State Taxation	37
ITEM 1A. RISK FACTORS	38
ITEM 1B. UNRESOLVED STAFF COMMENTS	48
ITEM 2. PROPERTIES.	49
ITEM 3. LEGAL PROCEEDINGS.	52
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.	52
ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.	52
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	53
ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA	55
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	60
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	97
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION	102



ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	159
ITEM 9A.	CONTROLS AND PROCEDURES.	159
ITEM 9B.	OTHER INFORMATION.	163
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.	163
ITEM 11.	EXECUTIVE COMPENSATION.	163
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	162
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.	163
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES.	164
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.	165
	SIGNATURES	
	INDEX TO EXHIBITS	

## PART I

### ITEM 1. BUSINESS.

#### THE COMPANY

Great Southern Bancorp, Inc.

Great Southern Bancorp, Inc. ("Bancorp" or "Company") is a financial holding company and parent of Great Southern Bank ("Great Southern" or the "Bank"). Bancorp was incorporated under the laws of the State of Delaware in July 1989 as a unitary savings and loan holding company. After receiving the approval of the Federal Reserve Bank of St. Louis (the "Federal Reserve Board" or "FRB"), the Company became a one-bank holding company on June 30, 1998, upon the conversion of Great Southern to a Missouri-chartered trust company. In 2004, Bancorp was re-incorporated under the laws of the State of Maryland.

As a Maryland corporation, the Company is authorized to engage in any activity that is permitted by the Maryland General Corporation Law and is not prohibited by law or regulatory policy. The Company currently conducts its business as a financial holding company. Through the financial holding company structure, it is possible to expand the size and scope of the financial services offered by the Company beyond those offered by the Bank. The financial holding company structure provides the Company with greater flexibility than the Bank has to diversify its business activities, through existing or newly formed subsidiaries, or through acquisitions or mergers of other financial institutions as well as other companies. At December 31, 2008, Bancorp's consolidated assets were \$2.66 billion, consolidated net loans were \$1.72 billion, consolidated deposits were \$1.91 billion and consolidated total stockholders' equity was \$234 million. The assets of the Company consist primarily of the stock of Great Southern, available-for-sale securities, minority interests in a local trust company and a merchant banking company and cash.

Through the Bank and subsidiaries of the Bank, the Company offers insurance, travel, investment and related services, which are discussed further below. The activities of the Company are funded by retained earnings and through dividends from Great Southern. Activities of the Company may also be funded through borrowings from third parties, sales of additional securities or through income generated by other activities of the Company. The Company expects to finance its future activities in a similar manner.

The executive offices of the Company are located at 1451 East Battlefield, Springfield, Missouri 65804, and its telephone number at that address is (417) 887-4400.

#### Great Southern Bank

Great Southern was formed as a Missouri-chartered mutual savings and loan association in 1923, and, in 1989, converted to a Missouri-chartered stock savings and loan association. In 1994, Great Southern changed to a federal savings bank charter and then, on June 30, 1998, changed to a Missouri-chartered trust company (the equivalent of a commercial bank charter). Headquartered in Springfield, Missouri, Great Southern offers a broad range of banking services through its 39 branches located in southwestern and central Missouri and the Kansas City, Missouri area. At December 31, 2008, the Bank had total assets of \$2.66 billion, net loans of \$1.72 billion, deposits of \$1.97 billion and stockholders' equity of \$203.9 million, or 7.7% of total assets. Its deposits are insured by the Deposit Insurance Fund ("DIF") to the maximum levels permitted by the Federal Deposit Insurance Corporation ("FDIC").

Great Southern is principally engaged in the business of originating residential and commercial real estate loans, construction loans, other commercial and consumer loans and funding these loans through attracting deposits from the general public, originating brokered deposits and borrowings from the Federal Home Loan Bank of Des Moines (the

"FHLBank") and others.

For many years, Great Southern has followed a strategy of emphasizing quality loan origination through residential, commercial and consumer lending activities in its local market area. The goal of this strategy has been to maintain its position as one of the leading providers of financial services in its market area, while simultaneously diversifying assets and reducing interest rate risk by originating and holding adjustable-rate loans in its portfolio and selling fixed-rate single-family mortgage loans in the secondary market. The Bank continues to place primary

emphasis on residential mortgage and other real estate lending while also expanding and increasing its originations of commercial business and consumer loans.

The corporate office of the Bank is located at 1451 East Battlefield, Springfield, Missouri 65804 and its telephone number at that address is (417) 887-4400.

#### Forward-Looking Statements

When used in this Form 10-K 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 risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Company's ability to access cost-effective funding, fluctuations in real estate values and both residential and commercial real estate market conditions, 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.

#### Internet Website

Bancorp maintains a website at [www.greatsouthernbank.com](http://www.greatsouthernbank.com). The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. Bancorp currently makes available on or through its website Bancorp's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge (other than a user's regular internet access charges) on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

#### Primary Market Area

Great Southern's primary market area encompasses 16 counties in southwestern, western and central Missouri. The Bank's branches and ATMs support deposit and lending activities throughout the region, serving such diversified markets as Springfield, Joplin, the Kansas City metropolitan area, the resort areas of Branson and Lake of the Ozarks, and various smaller communities in the Bank's market area. Management believes that the Bank's share of the deposit and lending markets in its market area is approximately 10% and that the Bank's affiliates have an even smaller percent, with the exception of the travel agency which has a larger percent of its respective business in its market area.

Great Southern's largest concentration of loans and deposits is in the Greater Springfield area. With a population of approximately 420,000, the Greater Springfield area is the third largest metropolitan area in Missouri. Employment in this area is diversified, including small and medium-sized manufacturing concerns, service industries, especially in the resort and leisure activities sectors, agriculture, the federal government, and a major state university along with other



smaller universities and colleges. Springfield is also a regional health care center with two major hospitals that employ a total of more than 14,000 people. The unemployment rate in this area is, and has consistently been, below the national average.

Beyond the significant concentration of loans in the Greater Springfield market, the Bank's loan portfolio is geographically diversified with various loan concentrations in several regional markets in Missouri, Kansas and

Northwest Arkansas. The portfolio diversification is due in part to the Company's initiative during the last six years to open loan production offices (LPOs) in high growth markets within the region. In 2003, offices were opened in Overland Park, Kan., and Rogers, Ark, which serves the Kansas City metropolitan area and Northwest Arkansas region, respectively. In 2005, a LPO in Creve Coeur, Mo., was opened serving the St. Louis metropolitan area. Before opening the LPOs, Great Southern historically served commercial lending needs in the St. Louis, Kansas City, and Northwest Arkansas regions from its Springfield office. The Bank's familiarity with these three markets, coupled with potential strong loan demand, led to physical expansion in these regions that allows Great Southern to more conveniently serve and expand client relationships and attract new business. Managed by seasoned commercial lenders who have personal experience and knowledge in their respective markets, the offices offer all Great Southern commercial lending services. Underwriting of all loan production in these regions is performed in Springfield, so credit decisions are consistent across all markets.

As of December 31, 2008, the Company's total loan portfolio balance was \$1.75 billion. Geographically, the total loan portfolio consists of loans collateralized in the following regions (including loan balance and percentage of total loans): Springfield (\$554 million, 31%); St. Louis (\$227 million, 13%); Branson (\$213 million, 12%); Northwest Arkansas (\$154 million, 9%); Kansas City (\$96 million, 6%); Central Missouri (\$63 million, 4%); other Missouri regions (\$135 million, 9%), and other out-of-state (\$310 million, 16%).

As noted above, Great Southern has historically served commercial real estate and construction needs in both the St. Louis and Kansas City markets. Concentrations of loans have increased in each of these markets with the establishment of LPOs. Both markets have diverse economies but are currently experiencing declines in economic activity. According to the March 5, 2009, Federal Reserve Beige Book, both markets continue to experience a slow-down in home sales and residential construction. In St. Louis, commercial real estate markets have held relatively steady, but commercial and industrial construction activity has softened. Kansas City is experiencing a decline in commercial real estate and construction activity.

The Company has a long history of lending in the Branson market. The region is a vacation and entertainment center, attracting tourists to its theme parks, resorts, music and novelty shows, and other recreational facilities. In the mid-1990's, the region experienced overbuilding in commercial and residential properties which created downward pressure on property values. In recent years, commercial real estate values have stabilized and residential real estate demand and values have shown improvement. In 2007, a large retail and hotel/convention center development opened in Branson's historic downtown creating hundreds of jobs in the area. In addition, several large national retailers have opened stores in Branson. Branson did feel the effects of the economic downturn in 2008 with a decline in commercial and residential real estate activity.

The Northwest Arkansas region continues to be a center of economic activity and growth. The region is home to the world's largest retailer, Wal-Mart, Inc., the country's largest poultry producer, Tyson Foods, Inc., and JB Hunt, one of the country's largest trucking firms. While the area continues to experience growth, the region is currently experiencing significant effects of overbuilding in the commercial and residential sectors.

## Lending Activities

### General

From its beginnings in 1923 through the early 1980s, Great Southern primarily made long-term, fixed-rate residential real estate loans that it retained in its loan portfolio. Beginning in the early 1980s, Great Southern increased its efforts to originate short-term and adjustable-rate loans. Beginning in the mid-1980s, Great Southern increased its efforts to originate commercial real estate and other residential loans, primarily with adjustable rates or shorter-term fixed rates. In addition, some competitor banking organizations merged with larger institutions and changed their business

practices or moved operations away from the local area, and others consolidated operations from the local area to larger cities. This has provided Great Southern expanded opportunity in the residential and commercial real estate lending areas as well as in the origination of commercial business and consumer loans, primarily in the indirect automobile area.

The Bank uses the same underwriting guidelines in evaluating these participations as it does in its direct loan originations. At December 31, 2008, the balance of participation loans purchased and held in portfolio was \$24.3 million, or 1.3% of the total loan portfolio. None of these participation loans were non-performing at December 31, 2008.

One of the principal historical lending activities of Great Southern is the origination of fixed and adjustable-rate conventional residential real estate loans to enable borrowers to purchase or refinance owner-occupied homes. Great Southern originates a variety of conventional, residential real estate mortgage loans, principally in compliance with Freddie Mac and Fannie Mae standards for resale in the secondary market. Great Southern promptly sells most of the fixed-rate residential mortgage loans that it originates. Depending on market conditions, the ongoing servicing of these loans is at times retained by Great Southern, but generally servicing is released to the purchaser of the loan. Great Southern retains substantially all of the adjustable-rate mortgage loans that it originates in its portfolio. To date, Great Southern has not experienced problems selling these loans in the secondary market.

Another principal lending activity of Great Southern is the origination of commercial real estate and commercial construction loans. Since the early 1990s, this area of lending has been an increasing percentage of the loan portfolio and accounted for approximately 46% of the portfolio at December 31, 2008.

In addition, Great Southern in recent years has increased its emphasis on the origination of other commercial loans, home equity loans, consumer loans and student loans, and is also an issuer of letters of credit. Letters of credit are contingent obligations and are not included in the Bank's loan portfolio. See "-- Other Commercial Lending," "-- Classified Assets," and "Loan Delinquencies and Defaults" below.

The percentage of collateral value Great Southern will loan on real estate and other property varies based on factors including, but not limited to, the type of property and its location and the borrower's credit history. As a general rule, Great Southern will loan up to 95% of the appraised value on single-family properties and up to 90% on two- to four-family residential property. Typically, private mortgage insurance is required for the loan amount above the 80% level. For commercial real estate and other residential real property loans, Great Southern may loan up to a maximum of 85% of the appraised value. The origination of loans secured by other property is considered and determined on an individual basis by management with the assistance of any industry guides and other information which may be available.

Loan applications are approved at various levels of authority, depending on the type, amount and loan-to-value ratio of the loan. Loan commitments of more than \$750,000 (or loans exceeding the Freddie Mac loan limit in the case of fixed-rate, one- to four-family residential loans for resale) must be approved by Great Southern's loan committee. The loan committee is comprised of the Chairman of the Bank, as chairman of the committee, and other senior officers of the Bank involved in lending activities.

Although Great Southern is permitted under applicable regulations to originate or purchase loans and loan participations secured by real estate located in any part of the United States, the Bank has concentrated its lending efforts in Missouri and Northern Arkansas, with the largest concentration of its lending activity being in southwestern and central Missouri. In addition, the Bank has made loans, secured primarily by commercial real estate, in other states, primarily Oklahoma, Texas, Kansas and other Midwestern states.

## Loan Portfolio Composition

The following table sets forth information concerning the composition of the Bank's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowance for loan losses) as of the dates indicated. The table is based on information prepared in accordance with generally accepted accounting principles and is qualified by reference to the Company's consolidated financial statements and the notes thereto contained in Item 8 of this report.

	2008		2007		December 31, 2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in thousands)										
Real Estate Loans:										
Residential										
One- to										
four- family	\$ 226,796	12.4%	\$ 191,970	9.1%	\$ 176,630	9.1%	\$ 173,135	9.7%	\$ 171,197	11.1%
Other										
residential										
(multi-family)	127,122	7.0	87,177	4.1	73,366	3.8	105,845	6.0	117,755	8.0
Commercial										
and industrial										
revenue										
bonds	536,963	29.4	532,797	25.3	529,046	27.4	553,195	31.2	526,776	35.0
Residential										
Construction:										
One- to										
four-family	230,862	12.6	318,131	15.1	347,287	18.0	246,912	13.9	160,161	10.0
Other										
residential	64,903	3.6	83,720	4.0	69,077	3.6	72,262	4.1	40,587	2.8
Commercial										
construction	309,200	16.9	517,208	24.6	443,286	22.9	382,651	21.6	230,103	15.0
Total real										
estate loans	1,495,846	81.9	1,731,003	82.2	1,638,692	84.8	1,534,000	86.5	1,246,579	84.0
Other Loans:										
Consumer										
loans:										
Guaranteed										
student loans	7,066	.4	3,342	.2	3,592	.2	3,345	.2	2,976	
Automobile,										
boat, etc.	132,344	7.2	112,984	5.4	96,242	5.0	84,092	4.7	80,517	5.0
Home										
equity and										
improvement	50,672	2.8	44,287	2.1	42,824	2.2	48,992	2.8	45,703	3.0
Other	1,315	.1	4,161	.2	2,152	.1	1,371	.1	1,318	
Total	191,397	10.5	164,774	7.9	144,810	7.5	137,800	7.8	130,514	8.0

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Total consumer loans										
Other commercial loans	139,592	7.6	207,059	9.9	149,593	7.7	102,034	5.7	103,635	7
Total other loans	330,989	18.1	371,833	17.8	294,403	15.2	239,834	13.5	234,149	15
Total loans	1,826,835	100.0%	2,102,836	100.0%	1,933,095	100.0%	1,773,834	100.0%	1,480,728	100
Less:										
Loans in process	73,855		254,562		229,794		233,213		121,677	
Deferred fees and discounts	2,126		2,704		2,425		1,902		1,054	
Allowance for loan losses	29,163		25,459		26,258		24,549		23,489	
Total loans receivable, net	\$ 1,721,691		\$ 1,820,111		\$ 1,674,618		\$ 1,514,170		\$ 1,334,508	

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following table shows the fixed- and adjustable-rate composition of the Bank's loan portfolio at the dates indicated. The table is based on information prepared in accordance with generally accepted accounting principles.

	2008		2007		December 31, 2006		2005		2004	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in thousands)										
Fixed-Rate Loans:										
Real Estate Loans										
Residential										
One- to four- family	\$ 71,990	3.9%	\$ 48,790	2.3%	\$ 33,378	1.7%	\$ 22,269	1.3%	\$ 25,266	
Other residential	44,436	2.4	34,798	1.7	31,575	1.6	38,473	2.2	65,646	
Commercial	185,631	10.2	158,223	7.5	117,701	6.1	130,316	7.3	110,414	
Residential construction:										
One- to four- family	22,054	1.2	17,872	.8	9,740	.5	18,224	1.0	83,306	
Other residential	7,977	.5	4,040	.2	10,946	.6	16,166	.9	11,880	
Commercial construction	22,897	1.3	12,483	.6	8,495	.4	13,980	.8	24,391	
Total real estate loans	354,985	19.5	276,206	13.1	211,835	10.9	239,428	13.5	320,903	
Consumer loans	142,848	7.8	123,232	5.9	104,789	5.4	91,639	5.2	87,868	
Other commercial loans	27,653	1.5	33,903	1.6	26,173	1.4	20,374	1.1	36,660	
Total fixed-rate loans	525,486	28.8	433,341	20.6	342,797	17.7	351,441	19.8	445,431	
Adjustable-Rate Loans:										
Real Estate Loans										
Residential										
One- to four- family	154,806	8.5	143,180	6.8	143,252	7.4	150,866	8.5	145,931	
Other residential	82,686	4.6	52,379	2.5	41,791	2.2	67,372	3.8	52,109	
Commercial	351,332	19.2	374,574	17.8	411,346	21.3	422,879	23.8	416,362	

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Residential construction:										
One- to four-family	208,808	11.4	300,259	14.3	337,547	17.4	228,688	12.9	76,855	
Other residential	56,926	3.1	79,680	3.8	58,131	3.0	56,096	3.2	28,707	
Commercial construction	286,303	15.6	504,725	24.0	434,791	22.5	368,671	20.8	205,712	
Total real estate loans	1,140,861	62.4	1,454,797	69.2	1,426,858	73.8	1,294,572	73.0	925,676	
Consumer loans	48,549	2.7	41,542	2.0	40,020	2.1	46,161	2.6	42,646	
Other commercial loans	111,939	6.1	173,156	8.2	123,420	6.4	81,660	4.6	66,975	
Total adjustable-rate loans	1,301,349	71.2	1,669,495	79.4	1,590,298	82.3	1,422,393	80.2	1,035,297	
Total loans	1,826,835	100.0%	2,102,836	100.0%	1,933,095	100.0%	1,773,834	100.0%	1,480,728	100.0%
Less:										
Loans in process	73,855		254,562		229,794		233,213		121,677	
Deferred fees and discounts	2,126		2,704		2,425		1,902		1,054	
Allowance for loan losses	29,163		25,459		26,258		24,549		23,489	
Total loans receivable, net	\$ 1,721,691		\$ 1,820,111		\$ 1,674,618		\$ 1,514,170		\$ 1,334,508	



Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following table presents the contractual maturities of loans at December 31, 2008. The table is based on information prepared in accordance with generally accepted accounting principles.

	Less Than One Year	One to Five Years	After Five Years	Total
	(Dollars in thousands)			
<b>Real Estate Loans:</b>				
Residential				
One- to four- family	\$ 54,731	\$ 33,287	\$ 138,778	\$ 226,796
Other residential	70,008	40,841	16,273	127,122
Commercial	161,686	265,051	110,226	536,963
Residential construction:				
One- to four- family	178,329	44,155	8,378	230,862
Other residential	44,084	17,888	2,931	64,903
Commercial construction	243,803	54,468	10,929	309,200
<b>Total real estate loans</b>	<b>752,641</b>	<b>455,690</b>	<b>287,515</b>	<b>1,495,846</b>
<b>Other Loans:</b>				
Consumer loans:				
Guaranteed student loans	7,066	---	---	7,066
Automobile	18,835	41,674	71,835	132,344
Home equity and improvement	3,910	15,450	31,312	50,672
Other	1,315	---	---	1,315
<b>Total consumer loans</b>	<b>31,126</b>	<b>57,124</b>	<b>103,147</b>	<b>191,397</b>
<b>Other commercial loans</b>	<b>73,235</b>	<b>39,192</b>	<b>27,165</b>	<b>139,592</b>
<b>Total other loans</b>	<b>104,361</b>	<b>96,316</b>	<b>130,312</b>	<b>330,989</b>
<b>Total loans</b>	<b>\$ 857,002</b>	<b>\$ 552,006</b>	<b>\$ 417,827</b>	<b>\$ 1,826,835</b>

As of December 31, 2008, loans due after December 31, 2009 with fixed interest rates totaled \$397.6 million and loans due after December 31, 2009 with adjustable rates totaled \$572.2 million.

#### Environmental Issues

Loans secured by real property, whether commercial, residential or other, may have a material, negative effect on the financial position and results of operations of the lender if the collateral is environmentally contaminated. The result can be, but is not necessarily limited to, liability for the cost of cleaning up the contamination imposed on the lender by certain federal and state laws, a reduction in the borrower's ability to pay because of the liability imposed upon it for any clean up costs, a reduction in the value of the collateral because of the presence of contamination or a subordination of security interests in the collateral to a super priority lien securing the clean up costs by certain state laws.

Management is aware of the risk that the Bank may be negatively affected by environmentally contaminated collateral and attempts to control this risk through commercially reasonable methods, consistent with guidelines arising from applicable government or regulatory rules and regulations, and to a more limited extent publications of the lending industry. Management currently is unaware (without, in many circumstances, specific inquiry or investigation of

existing collateral, some of which was accepted as collateral before risk controlling measures were implemented) of any environmental contamination of real property securing loans in the Bank's portfolio that would subject the Bank to any material risk. No assurance can be made, however, that the Bank will not be adversely affected by environmental contamination.

## Residential Real Estate Lending

At December 31, 2008 and 2007, loans secured by residential real estate, excluding that which is under construction, totaled \$354 million and \$279 million, respectively, and represented approximately 19.4% and 13.2%, respectively, of the Bank's total loan portfolio. Compared to historical levels, market rates for fixed rate mortgages were low during the years ended December 31, 2003 and 2004. This caused a higher than normal level of refinancing of adjustable-rate loans into fixed-rate loans primarily during 2003 and the early portion of 2004, most of which were sold in the secondary market, and accounted for the decline in the Bank's one- to four-family residential real estate loan portfolio prior to 2004. As rates began to move up in 2004 through 2007, fewer loans were refinanced and paid off early. In addition, in some instances borrowers opted for adjustable-rate loans which the Bank generally retains in its portfolio. The Bank's one- to four-family residential real estate loan portfolio increased significantly in 2008 as interest rates were falling and the Bank originated more adjustable-rate loans which it retained. Other residential real estate loan balances decreased in 2005 and 2006, primarily as a result of loans secured by apartments and other multi-family units being refinanced elsewhere. Other residential real estate loan balances increased somewhat in 2007 and more significantly in 2008, as there was less competition to finance these projects by non-bank entities.

The Bank currently is originating one- to four-family adjustable-rate residential mortgage loans primarily with one-year adjustment periods. Rate adjustments on loans originated prior to July 2001 are based upon changes in prevailing rates for one-year U.S. Treasury securities. Rate adjustments on loans originated since July 2001 are based upon changes in the average of interbank offered rates for twelve month U.S. Dollar-denominated deposits in the London Market or changes in prevailing rates for one-year U.S. Treasury securities. Rate adjustments are generally limited to 2% maximum annual adjustments as well as a maximum aggregate adjustment over the life of the loan. Accordingly, the interest rates on these loans typically may not be as rate sensitive as is the Bank's cost of funds. Generally, the Bank's adjustable-rate mortgage loans are not convertible into fixed-rate loans, do not permit negative amortization of principal and carry no prepayment penalty. The Bank also currently is originating other residential (multi-family) mortgage loans with interest rates that are generally either adjustable with changes to the prime rate of interest or fixed for short periods of time (three to five years).

The Bank's portfolio of adjustable-rate mortgage loans also includes a number of loans with different adjustment periods, without limitations on periodic rate increases and rate increases over the life of the loans, or which are tied to other short-term market indices. These loans were originated prior to the industry standardization of adjustable-rate loans. Since the adjustable-rate mortgage loans currently held in the Bank's portfolio have not been subject to an interest rate environment which causes them to adjust to the maximum, these loans entail unquantifiable risks resulting from potential increased payment obligations on the borrower as a result of upward repricing. Many of these loans experienced upward interest rate adjustments in 2006 and 2007; however, the indices used by Great Southern for these types of loans decreased in 2008. Compared to fixed-rate mortgage loans, these loans are subject to increased risk of delinquency or default as the higher, fully-indexed rate of interest subsequently comes into effect in replacement of the lower initial rate. The Bank had not experienced a significant increase in delinquencies in adjustable-rate mortgage loans due to a relatively low interest rate environment and favorable economic conditions in recent years. However, in 2008 delinquencies on mortgage loans increased.

In underwriting one- to four-family residential real estate loans, Great Southern evaluates the borrower's ability to make monthly payments and the value of the property securing the loan. It is the policy of Great Southern that generally all loans in excess of 80% of the appraised value of the property be insured by a private mortgage insurance company approved by Great Southern for the amount of the loan in excess of 80% of the appraised value. In addition, Great Southern requires borrowers to obtain title and fire and casualty insurance in an amount not less than the amount of the loan. Real estate loans originated by the Bank generally contain a "due on sale" clause allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the property securing the loan. The Bank may enforce these due on sale clauses to the extent permitted by law.

### Commercial Real Estate and Construction Lending

Commercial real estate lending has been a significant part of Great Southern's business activities since the mid-1980's. Great Southern does commercial real estate lending in order to increase the yield on, and the proportion of interest rate sensitive loans in, its portfolio. Given the current state of the U. S. economy and real estate markets, Great Southern expects to generally maintain the current percentage of commercial real estate loans in its total loan

portfolio subject to commercial real estate and other market conditions and to applicable regulatory restrictions. Great Southern has seen a significant decrease in its commercial construction loan portfolio since December 31, 2007. This trend is expected to continue throughout 2009. See "Government Supervision and Regulation" below.

At December 31, 2008 and 2007 loans secured by commercial real estate (excluding that which is under construction) totaled \$537 million and \$533 million, respectively, or approximately 29.4% and 25.3%, respectively, of the Bank's total loan portfolio. In addition, at December 31, 2008 and 2007, construction loans secured by projects under construction and the land on which the projects are located aggregated \$605 million and \$919 million, respectively, or 33.1% and 43.7%, respectively, of the Bank's total loan portfolio. The majority of the Bank's commercial real estate loans have been originated with adjustable rates of interest, most of which are tied to the Bank's prime rate. Substantially all of these loans were originated with loan commitments which did not exceed 80% of the appraised value of the properties securing the loans.

The Bank's construction loans generally have a term of eighteen months or less. The construction loan agreements for one- to four-family projects generally provide that principal reductions are required as individual condominium units or single-family houses are built and sold to a third party. This insures that the remaining loan balance, as a proportion to the value of the remaining security, does not increase. Loan proceeds are disbursed in increments as construction progresses. Generally, the amount of each disbursement is based on the construction cost estimate of an independent architect, engineer or qualified fee inspector who inspects the project in connection with each disbursement request. Normally, Great Southern's commercial real estate and other residential construction loans are made either as the initial stage of a combination loan (i.e., with a commitment from the Bank to provide permanent financing upon completion of the project) or with a commitment from a third party to provide permanent financing.

The Bank's commercial real estate, construction and other residential loan portfolios consist of loans with diverse collateral types. The following table sets forth loans that were secured by certain types of collateral at December 31, 2008. These collateral types represent the six highest percentage concentrations of commercial real estate, construction and other residential loan types to the total loan portfolio.

Collateral Type	Loan Balance	Percentage of Total Loan Portfolio (Dollars in thousands)	Non-Performing Loans at December 31, 2008
Apartments	\$164,711	9.0%	\$ 817
Health Care Facilities	\$159,757	8.8%	\$ 0
Retail (Varied Projects)	\$121,930	6.7%	\$1,709
Motels/Hotels	\$119,627	6.6%	\$ 248
Subdivisions	\$110,462	6.1%	\$1,401
Condominiums	\$ 89,693	4.9%	\$8,203

The Bank's commercial real estate loans and construction loans generally involve larger principal balances than do its residential loans. In general, state banking laws restrict loans to a single borrower and related entities to no more than 25% of a bank's unimpaired capital and unimpaired surplus, plus an additional 10% if the loan is collateralized by certain readily marketable collateral. (Real estate is not included in the definition of "readily marketable collateral.") As computed on the basis of the Bank's unimpaired capital and surplus at December 31, 2008, this limit was approximately \$56.5 million. See "Government Supervision and Regulation." At December 31, 2008, the Bank was in compliance with the loans-to-one borrower limit. At December 31, 2008, the Bank's largest relationship for purposes of this limit totaled \$35.5 million. All loans included in this relationship were current at December 31, 2008.

Commercial real estate lending and construction lending generally affords the Bank an opportunity to receive interest at rates higher than those obtainable from residential mortgage lending and to receive higher origination and other loan fees. In addition, commercial real estate loans and construction loans are generally made with adjustable rates of interest or, if made on a fixed-rate basis, for relatively short terms. Nevertheless, commercial

real estate lending entails significant additional risks as compared with residential mortgage lending. Commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by commercial properties is typically dependent on the successful operation of the related real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy generally.

Construction loans also involve additional risks attributable to the fact that loan funds are advanced upon the security of the project under construction, which is of uncertain value prior to the completion of construction. Moreover, because of the uncertainties inherent in estimating construction costs, delays arising from labor problems, material shortages, and other unpredictable contingencies, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, and the related loan-to-value ratios. See also the discussion under the headings "- Classified Assets" and "- Loan Delinquencies and Defaults" below.

#### Other Commercial Lending

At December 31, 2008 and 2007, respectively, Great Southern had \$140 million and \$207 million in other commercial loans outstanding, or 7.6% and 9.9%, respectively, of the Bank's total loan portfolio. Great Southern's other commercial lending activities encompass loans with a variety of purposes and security, including loans to finance accounts receivable, inventory and equipment.

Great Southern expects to continue to originate loans in this category subject to market conditions and applicable regulatory restrictions. See "Government Supervision and Regulation" below.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, other commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. Commercial loans are generally secured by business assets, such as accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of other commercial loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

The Bank's management recognizes the generally increased risks associated with other commercial lending. Great Southern's commercial lending policy emphasizes complete credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of the industry conditions affecting the borrower. Review of the borrower's past, present and future cash flows is also an important aspect of Great Southern's credit analysis. In addition, the Bank generally obtains personal guarantees from the borrowers on these types of loans. The majority of Great Southern's commercial loans have been to borrowers in southwestern and central Missouri. Great Southern intends to continue its commercial lending in this geographic area.

As part of its commercial lending activities, Great Southern issues letters of credit and receives fees averaging approximately 1% of the amount of the letter of credit per year. At December 31, 2008, Great Southern had 105 letters of credit outstanding in the aggregate amount of \$16.3 million. Approximately 79% of the aggregate amount of these letters of credit were secured, including one \$4.6 million letter of credit secured by real estate which was issued to enhance the issuance of housing revenue refunding bonds.

#### Consumer Lending

Great Southern management views consumer lending as an important component of its business strategy. Specifically, consumer loans generally have short terms to maturity, thus reducing Great Southern's exposure to changes in interest rates, and carry higher rates of interest than do residential mortgage loans. In addition, Great Southern believes that the offering of consumer loan products helps to expand and create stronger ties to its existing customer base.



Great Southern offers a variety of secured consumer loans, including automobile loans, boat loans, home equity loans and loans secured by savings deposits. In addition, Great Southern also offers home improvement loans, guaranteed student loans and unsecured consumer loans. Consumer loans totaled \$191 million and \$165 million at December 31, 2008 and 2007, respectively, or 10.5% and 7.9%, respectively, of the Bank's total loan portfolio.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Beginning in 1998, the Bank implemented indirect lending relationships, primarily with automobile dealerships. Through these dealer relationships, the dealer completes the application with the consumer and then submits it to the Bank for credit approval. While the Bank's initial concentrated effort was on automobiles, the program has evolved for use with other tangible products where financing of the product is provided through the seller, including boats and manufactured homes. At December 31, 2008 and 2007, the Bank had \$129.6 million and \$104.5 million, respectively, of indirect auto, boat, modular home and recreational vehicle loans in its portfolio.

Student loans are underwritten in compliance with the regulations of the U.S. Department of Education for the Federal Family Education Loan Programs ("FFELP"). The FFELP loans are administered and guaranteed by the Missouri Coordinating Board for Higher Education as long as the Bank complies with the regulations. The Bank has contracted with the Missouri Higher Education Loan Authority (the "MOHELA") to originate and service these loans and to purchase these loans during the grace period immediately prior to the loans beginning their repayment period. This repayment period generally commences at the time the student graduates or does not maintain the required hours of enrollment.

Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial strength, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state consumer bankruptcy and insolvency laws, may limit the amount which can be recovered on these loans. These loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of these loans such as the Bank, and a borrower may be able to assert against the assignee claims and defenses which it has against the seller of the underlying collateral.

#### Originations, Purchases, Sales and Servicing of Loans

The Bank originates loans through internal loan production personnel located in the Bank's main and branch offices, as well as loan production offices. Walk-in customers and referrals from existing customers of the Company are also important sources of loan originations.

Great Southern may also purchase whole loans and participation interests in loans (generally without recourse, except in cases of breach of representation, warranty or covenant) from other banks, thrift institutions and life insurance companies (originators). The purchase transaction is governed by a participation agreement entered into by the originator and participant (Great Southern) containing guidelines as to ownership, control and servicing rights, among others. The originator may retain all rights with respect to enforcement, collection and administration of the loan. This may limit Great Southern's ability to control its credit risk when it purchases participations in these loans. For

instance, the terms of participation agreements vary; however, generally Great Southern may not have direct access to the borrower, and the institution administering the loan may have some discretion in the administration of performing loans and the collection of non-performing loans.

A number of banks, both locally and regionally, are seeking diversification of risk in their portfolios. In order to take advantage of this situation, beginning in 1998, Great Southern increased the number and amount of participations purchased in commercial real estate and commercial construction loans. Great Southern subjects these loans to its normal underwriting standards used for

originated loans and rejects any credits that do not meet those guidelines. The originating bank retains the servicing of these loans. The Bank purchased \$7.4 million of these loans in the fiscal year ended December 31, 2008 and \$1.6 million in the fiscal year ended December 31, 2007. Of the total \$24.3 million of purchased participation loans outstanding at December 31, 2008, \$9.5 million was purchased from one institution, secured by one property located in Texas. None of these loans were non-performing at December 31, 2008.

There have been no whole loan purchases by the Bank in the last five years. At December 31, 2008 and 2007, approximately \$155,000, or 0.01%, and \$193,000, or 0.01%, respectively, of the Bank's total loan portfolio consisted of purchased whole loans.

Great Southern sells non-residential loan participations generally without recourse to private investors, such as other banks, thrift institutions and life insurance companies (participants). The sales transaction is governed by a participation agreement entered into by the originator (Great Southern) and participant containing guidelines as to ownership, control and servicing rights, among others. Great Southern retains servicing rights for these participations sold. These participations are sold with a provision for repurchase upon breach of representation, warranty or covenant.

Great Southern also sells whole residential real estate loans without recourse to Freddie Mac as well as private investors, such as other banks, thrift institutions, mortgage companies and life insurance companies. Whole real estate loans are sold with a provision for repurchase upon breach of representation, warranty or covenant. These loans are generally sold for cash in amounts equal to the unpaid principal amount of the loans determined using present value yields to the buyer. The sale amounts generally produce gains to the Bank and allow a margin for servicing income on loans when the servicing is retained by the Bank. However, residential real estate loans sold in recent years have primarily been with Great Southern releasing control of the servicing of the loans.

The Bank sold one- to four-family whole real estate loans and loan participations in aggregate amounts of \$93.5 million, \$76.2 million and \$71.1 million during fiscal 2008, 2007 and 2006, respectively. Sales of whole real estate loans and participations in real estate loans can be beneficial to the Bank since these sales generally generate income at the time of sale, produce future servicing income on loans where servicing is retained, provide funds for additional lending and other investments, and increase liquidity.

Great Southern also sells guaranteed student loans to the MOHELA. These loans are sold for cash in amounts equal to the unpaid principal amount of the loans and a premium based on average borrower indebtedness. Great Southern does not underwrite these loans. Students work with their respective colleges' or universities' financial aid offices to secure these loans directly from MOHELA, with all underwriting performed by MOHELA and the financial aid offices. Periodically, MOHELA sells loans to financial institutions such as Great Southern for a short time. Great Southern then holds the loans for a short period and sells the loans back to MOHELA. This is all done without recourse unless the Bank engaged in some action that would constitute gross misconduct.

The Bank sold guaranteed student loans in aggregate amounts of \$0.6 million, \$3.0 million and \$2.3 million during fiscal 2008, 2007 and 2006, respectively. Sales of guaranteed student loans generally can be beneficial to the Bank since these sales remove the burdensome servicing requirements of these types of loans once the borrower begins repayment.

Gains, losses and transfer fees on sales of loans and loan participations are recognized at the time of the sale. When real estate loans and loan participations sold have an average contractual interest rate that differs from the agreed upon yield to the purchaser (less the agreed upon servicing fee), resulting gains or losses are recognized in an amount equal to the present value of the differential over the estimated remaining life of the loans. Any resulting discount or premium is accreted or amortized over the same estimated life using a method approximating the level yield interest

method. When real estate loans and loan participations are sold with servicing released, as the Bank primarily does, an additional fee is received for the servicing rights. Net gains and transfer fees on sales of loans for fiscal 2008, 2007 and 2006 were \$1.4 million, \$1.0 million and \$944,000, respectively. Of these amounts, \$11,000, \$53,000 and \$40,000, respectively, were gains from the sale of guaranteed student loans and \$1.4 million, \$984,000 and \$904,000, respectively, were gains from the sale of fixed-rate residential loans.

Although most loans currently sold by the Bank are sold with servicing released, the Bank had the servicing rights for approximately \$87.1 million and \$66.0 million at December 31, 2008 and 2007, respectively, of

loans owned by others. The servicing of these loans generated net servicing fees to the Bank for the years ended December 31, 2008, 2007 and 2006, of \$52,000, \$50,000 and \$44,000, respectively.

In addition to interest earned on loans and loan origination fees, the Bank receives fees for loan commitments, letters of credit, prepayments, modifications, late payments, transfers of loans due to changes of property ownership and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market. Fees from prepayments, commitments, letters of credit and late payments totaled \$1.0 million, \$1.2 million and \$1.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Loan origination fees, net of related costs, are accounted for in accordance with Statement of Financial Accounting Standards No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in interest income using the level-yield method over the contractual life of the loan. For further discussion of this matter, see Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 of this Report.

#### Loan Delinquencies and Defaults

When a borrower fails to make a required payment on a loan, the Bank attempts to cause the delinquency to be cured by contacting the borrower. In the case of loans secured by residential real estate, a late notice is sent 15 days after the due date. If the delinquency is not cured by the 30th day, a delinquent notice is sent to the borrower.

Additional written contacts are made with the borrower 45 and 60 days after the due date. If the delinquency continues for a period of 65 days, the Bank usually institutes appropriate action to foreclose on the collateral. The actual time it takes to foreclose on the collateral varies depending on the particular circumstances and the applicable governing law. If foreclosed upon, the property is sold at public auction and may be purchased by the Bank. Delinquent consumer loans are handled in a generally similar manner, except that initial contacts are made when the payment is five days past due and appropriate action may be taken to collect any loan payment that is delinquent for more than 15 days. The Bank's procedures for repossession and sale of consumer collateral are subject to various requirements under the applicable consumer protection laws as well as other applicable laws and the determination by the Bank that it would be beneficial from a cost basis.

Delinquent commercial business loans and loans secured by commercial real estate are initially handled by the loan officer in charge of the loan, who is responsible for contacting the borrower. The President and Senior Lending Officer also work with the commercial loan officers to see that necessary steps are taken to collect delinquent loans. In addition, the Bank has a Problem Loan Committee which meets at least quarterly and reviews all classified assets, as well as other loans which management feels may present possible collection problems. If an acceptable workout of a delinquent commercial loan cannot be agreed upon, the Bank may initiate foreclosure proceedings on any collateral securing the loan. However, in all cases, whether a commercial or other loan, the prevailing circumstances may be such that management may determine it is in the best interest of the Bank not to foreclose on the collateral.

The following table sets forth our loans delinquent 30 - 89 days by type, number, amount and percentage of type at December 31, 2008.

	Loans Delinquent for 30-89 Days			Percent of Total Delinquent Loans
	Number	Amount		
		(Dollars in thousands)		
Real Estate:				
One- to four-family	99	\$	8,166	33%
Other residential	3		1,624	7
Commercial	6		2,371	10
Construction or development	17		8,360	34
Consumer and overdrafts	907		3,780	16
Other commercial	4		62	---
Total	1,036	\$	24,363	100%

#### Classified Assets

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered to be of lesser quality as "substandard," "doubtful" or "loss" assets. The regulations require insured institutions to classify their own assets and to establish prudent specific allocations for losses from assets classified "substandard" or "doubtful." For the portion of assets classified as "loss," an institution is required to either establish specific allowances of 100% of the amount classified or charge such amount off its books. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess a potential weakness, are required to be listed on the Bank's watch list and monitored for further deterioration. In addition, a bank's regulators may require the establishment of a general allowance for losses based on the general quality of the asset portfolio of the bank. Following are the total classified assets at December 31, 2008, per the Bank's internal asset classification list. There were no significant off- balance sheet items classified at December 31, 2008.

Asset Category	Substandard	Doubtful	Loss	Total Classified	Allowance for Losses
(Dollars in thousands)					
Investment securities	\$ ---	\$---	\$ ---	\$ ---	\$ ---
Loans	50,776	---	---	50,776	29,163
Foreclosed assets	27,752	---	---	27,752	---
Total	\$78,528	\$---	\$ ---	\$78,528	\$29,163

#### Non-Performing Assets

The table below sets forth the amounts and categories of gross non-performing assets (classified loans which are not performing under regulatory guidelines and all foreclosed assets, including assets acquired in settlement of loans) in the Bank's loan portfolio as of the dates indicated. Loans generally are placed on non-accrual status when the loan becomes 90 days delinquent or when the collection of principal, interest, or both, otherwise becomes doubtful. For all years presented, the Bank has not had any troubled debt restructurings, which involve forgiving a portion of interest or

principal on any loans or making loans at a rate materially less than that of market rates.

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

	2008	2007	December 31, 2006	2005	2004
	(Dollars in thousands)				
Non-accruing loans:					
One- to four-family residential	\$ 3,635	\$ 4,836	\$ 1,627	\$ 1,500	\$ 1,382
One- to four-family construction	2,187	1,767	3,931	2,103	---
Other residential	9,344(1)	561	---	---	---
Commercial real estate	2,480	9,145	6,247	8,368	2,016
Other commercial	1,220	5,923	4,843	2,123	302
Commercial construction	13,703(2)	12,935(1)	2,968	1,049	388
Consumer	315	112	186	237	271
<b>Total gross non-accruing loans</b>	<b>32,884</b>	<b>35,279</b>	<b>19,802</b>	<b>15,380</b>	<b>4,359</b>
Loans over 90 days delinquent still accruing interest:					
One- to four-family residential	---	38	---	640	---
Commercial real estate	---	---	59	---	---
Other commercial	---	34	---	---	---
Commercial construction	---	---	121	---	---
Consumer	318	124	261	190	120
<b>Total loans over 90 days delinquent still accruing interest</b>	<b>318</b>	<b>196</b>	<b>441</b>	<b>830</b>	<b>120</b>
Other impaired loans	---	---	---	---	---
<b>Total gross non-performing loans</b>	<b>33,202</b>	<b>35,475</b>	<b>20,243</b>	<b>16,210</b>	<b>4,479</b>
Foreclosed assets:					
One- to four-family residential	4,810	742	80	---	195
One- to four-family construction	3,148	7,701	400	2	431
Other residential	---	---	3,190	---	---
Commercial real estate	6,905	5,130	825	76	564
Commercial construction	17,050	6,416	2	---	242
<b>Total foreclosed assets</b>	<b>31,913</b>	<b>19,989</b>	<b>4,497</b>	<b>78</b>	<b>1,432</b>
Repossessions	746	410	271	517	603
<b>Total gross non-performing assets</b>	<b>\$ 65,861</b>	<b>\$ 55,874</b>	<b>\$ 25,011</b>	<b>\$ 16,805</b>	<b>\$ 6,514</b>
<b>Total gross non-performing assets as a percentage of average total assets</b>	<b>2.61%</b>	<b>2.39%</b>	<b>1.15%</b>	<b>0.85%</b>	<b>0.38%</b>

(1) One relationship is \$10.3 million of this total at December 31, 2007. The project was completed in the first quarter of 2008 and was reclassified from "construction" to "other"



residential.” The outstanding balance of the relationship was reduced to \$6.1 million at December 31, 2008. See Item 7. "Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Non-performing Assets."

(2) One relationship is \$8.3 million of this total at December 31, 2008. See Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations -- Non-performing Assets."

Gross impaired loans totaled \$34.3 million at December 31, 2008 and \$35.5 million at December 31, 2007. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

For the year ended December 31, 2008, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to \$2.9 million. The amount that was included in interest income on these loans was \$1.1 million for the year ended December 31, 2008. For the year ended December 31, 2007, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to \$2.7 million. The amount that was included in interest income on these loans was \$1.1 million for the year ended December 31, 2007.

The level of commercial real estate non-performing assets is primarily attributable to the Bank's commercial and residential construction, commercial business, commercial real estate, multi-family residential and one- to four-family residential lending activities. Commercial activities generally involve significantly greater credit risks than single-family residential lending. For a discussion of significant non-performing assets and potential problem loans, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### Allowances for Losses on Loans and Foreclosed Assets

Great Southern maintains an allowance for loan losses to absorb losses known and inherent in the loan portfolio based upon ongoing, monthly assessments of the loan portfolio. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include a formula allowance, specific allowances for identified problem loans and portfolio segments and economic conditions that may lead to a concern about the loan portfolio or segments of the loan portfolio.

The formula allowance is calculated by applying loss factors to outstanding loans based on the internal risk evaluation of such loans or pools of loans. Changes in risk evaluations of both performing and non-performing loans affect the amount of the formula allowance. Loss factors are based both on our historical loss experience and on significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loan loss factors for portfolio segments are representative of the credit risks associated with loans in those segments. The greater the credit risks associated with a particular segment, the greater the loss factor.

The appropriateness of the allowance is reviewed by management based upon its evaluation of then-existing economic and business conditions affecting our key lending areas. Other conditions that management considers in determining the appropriateness of the allowance include, but are not limited to, changes to our underwriting standards (if any), credit quality trends (including changes in non-performing loans expected to result from existing economic and other market conditions), trends in collateral values, loan volumes and concentrations, and recent loss experience in particular segments of the portfolio that existed as of the balance sheet date and the impact that such conditions were believed to have had on the collectibility of those loans.

Senior management reviews these conditions weekly in discussions with our credit officers. To the extent that any of these conditions are evidenced by a specifically identifiable problem loan or portfolio segment as of the evaluation date, management's estimate of the effect of such condition may be reflected as a specific allowance applicable to such loan or portfolio segment. Where any of these conditions are not evidenced by a specifically identifiable problem loan or portfolio segment as of the evaluation date, management's evaluation of the loss related to these conditions is reflected in the unallocated allowance associated with our portfolios of mortgage, consumer, commercial and construction loans. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of

uncertainty because they are not identified with specific problem loans or portfolio segments.

The amounts actually observed in respect to these losses can vary significantly from the estimated amounts. Our methodology permits adjustments to any loss factor used in the computation of the formula allowances in the event that, in management's judgment, significant factors which affect the collectibility of the portfolio, as of the evaluation date, are not reflected in the current loss factors. By assessing the estimated losses

inherent in our loan portfolio on a monthly basis, we can adjust specific and inherent loss estimates based upon more current information.

On a quarterly basis, senior management presents a formal assessment of the adequacy of the allowance for loan losses to Great Southern's board of directors for the board's approval of the allowance. Assessing the adequacy of the allowance for loan losses is inherently subjective as it requires making material estimates including the amount and timing of future cash flows expected to be received on impaired loans or changes in the market value of collateral securing loans that may be susceptible to significant change. In the opinion of management, the allowance when taken as a whole is adequate to absorb reasonable estimated loan losses inherent in Great Southern's loan portfolio.

Allowances for estimated losses on foreclosed assets (real estate and other assets acquired through foreclosure) are charged to expense, when in the opinion of management, any significant and permanent decline in the market value of the underlying asset reduces the market value to less than the carrying value of the asset. Senior management assesses the market value of each foreclosed asset individually.

At December 31, 2008 and 2007, Great Southern had an allowance for losses on loans of \$29.2 million and \$25.5 million, respectively, of which \$7.0 million and \$9.6 million, respectively, had been allocated as an allowance for specific loans, including \$3.7 million and \$6.0 million, respectively, allocated for impaired loans. The allowance and the activity within the allowance during 2008 are discussed further in Note 4 of the Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 8 and Item 7 of this Report, respectively.

The allocation of the allowance for losses on loans at the dates indicated is summarized as follows. The table is based on information prepared in accordance with generally accepted accounting principles.

	2008		2007		December 31, 2006		2005		2004
	Amount	% of Loans to Total	Amount	% of Loans to Total	Amount	% of Loans to Total	Amount	% of Loans to Total	Amount
(Dollars in thousands)									
One- to four-family residential and construction	\$ 11,942	25.1%	\$ 6,042	26.2%	\$ 2,029	27.1%	\$ 1,679	23.7%	\$ 2,019
Other residential and construction	2,667	10.5	1,929	8.1	1,436	7.4	2,084	10.0	1,030
Commercial real estate	4,049	29.4	2,257	22.4	9,363	27.4	9,331	31.2	8,984
Commercial construction	6,371	16.9	10,266	22.7	9,189	22.9	7,563	21.6	8,843
Other commercial	1,897	7.6	2,736	12.8	2,150	7.7	2,081	5.7	894
Consumer and overdrafts	2,237	10.5	2,229	7.8	2,091	7.5	1,811	7.8	1,719
Total	\$ 29,163	100.0%	\$ 25,459	100.0%	\$ 26,258	100.0%	\$ 24,549	100.0%	\$ 23,489

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following table sets forth an analysis of activity in the Bank's allowance for losses on loans showing the details of the activity by types of loans. The table is based on information prepared in accordance with generally accepted accounting principles.

	2008	2007	December 31,		2004
			2006	2005	
	(Dollars in thousands)				
Balance at beginning of period	\$ 25,459	\$ 26,258	\$ 24,549	\$ 23,489	\$ 20,844
Charge-offs:					
One- to four-family residential	1,278	413	164	215	241
Other residential	342	---	96	---	---
Commercial real estate	886	1,122	310	163	70
Construction	7,501	3,564	1,618	570	36
Consumer, overdrafts and other loans	4,111	3,568	3,729	3,345	3,510
Other commercial	38,909	202	324	963	1,123
Total charge-offs	53,027	8,869	6,241	5,256	4,980
Recoveries:					
One- to four-family residential	111	24	59	16	265
Other residential	---	16	1	---	3
Commercial real estate	164	40	27	48	92
Construction	334	183	41	7	6
Consumer, overdrafts and other loans	2,279	2,132	2,290	2,109	2,138
Other commercial	1,643	200	82	111	321
Total recoveries	4,531	2,595	2,500	2,291	2,825
Net charge-offs	48,496	6,274	3,741	2,965	2,155
Provision for losses on loans	52,200	5,475	5,450	4,025	4,800
Balance at end of period	\$ 29,163	\$ 25,459	\$ 26,258	\$ 24,549	\$ 23,489
Ratio of net charge-offs to average loans					
Outstanding	2.63%	0.35%	0.23%	0.20%	0.17%

#### Investment Activities

Excluding those issued by the United States Government, or its agencies, there were no investment securities in excess of 10% of the Bank's retained earnings at December 31, 2008 and 2007, respectively. Agencies, for this purpose, primarily include Freddie Mac, Fannie Mae and FHLBank.

As of December 31, 2008 and 2007, the Bank held approximately \$1.4 million and \$1.4 million, respectively, in principal amount of investment securities which the Bank intends to hold until maturity. As of such dates, these securities had fair values of approximately \$1.4 million and \$1.5 million, respectively. In addition, as of December 31, 2008 and 2007, the Company held approximately \$647.7 million and \$425.0 million, respectively, in principal amount

of investment securities which the Company classified as available-for-sale. See Notes 1 and 2 of the Notes to Consolidated Financial Statements contained in Item 8 of this Report.

The amortized cost and approximate fair values of, and gross unrealized gains and losses on, investment securities at the dates indicated are summarized as follows.

	December 31, 2008				Approximate Fair Value
	Amortized Cost	Gross	Gross		
		Unrealized Gains	Unrealized Losses		
(Dollars in thousands)					
<b>AVAILABLE-FOR-SALE SECURITIES:</b>					
U.S. government agencies	\$ 34,968	\$ 32	\$ 244	\$	34,756
Collateralized mortgage obligations	73,976	585	2,647		71,914
Mortgage-backed securities	480,349	6,029	1,182		485,196
Corporate bonds	1,500	---	295		1,205
States and political subdivisions	55,545	107	2,549		53,103
Equity securities	1,552	---	48		1,504
Total available-for-sale securities	\$ 647,890	\$ 6,753	\$ 6,965	\$	647,678
<b>HELD-TO-MATURITY SECURITIES:</b>					
States and political subdivisions	\$ 1,360	\$ 62	\$ ---	\$	1,422
Total held-to-maturity securities	\$ 1,360	\$ 62	\$ ---	\$	1,422
	December 31, 2007				Approximate Fair Value
	Amortized Cost	Gross	Gross		
		Unrealized Gains	Unrealized Losses		
(Dollars in thousands)					
<b>AVAILABLE-FOR-SALE SECURITIES:</b>					
U.S. government agencies	\$ 126,117	\$ 53	\$ 375	\$	125,795
Collateralized mortgage obligations	39,769	214	654		39,329
Mortgage-backed securities	183,023	1,030	916		183,137
Corporate bonds	1,501	---	25		1,476
States and political subdivisions	62,572	533	453		62,652
Equity securities	12,874	4	239		12,639
Total available-for-sale securities	\$ 425,856	\$ 1,834	\$ 2,662	\$	425,028
<b>HELD-TO-MATURITY SECURITIES:</b>					
States and political subdivisions	\$ 1,420	\$ 88	\$ ---	\$	1,508
Total held-to-maturity securities	\$ 1,420	\$ 88	\$ ---	\$	1,508

	December 31, 2006			Approximate Fair Value
	Amortized Cost	Gross Unrealized Gains (Dollars in thousands)	Gross Unrealized Losses	
<b>AVAILABLE-FOR-SALE SECURITIES:</b>				
U.S. government agencies	\$ 59,494	\$ ---	\$ 798	\$ 58,696
Collateralized mortgage obligations	30,536	1	453	30,084
Mortgage-backed securities	191,282	221	3,027	188,476
Corporate bonds	3,355	101	---	3,456
States and political subdivisions	51,128	870	31	51,967
Equity securities	11,196	317	---	11,513
<b>Total available-for-sale securities</b>	<b>\$ 346,991</b>	<b>\$ 1,510</b>	<b>\$ 4,309</b>	<b>\$ 344,192</b>
<b>HELD-TO-MATURITY SECURITIES:</b>				
States and political subdivisions	\$ 1,470	\$ 99	\$ ---	\$ 1,569
<b>Total held-to-maturity securities</b>	<b>\$ 1,470</b>	<b>\$ 99</b>	<b>\$ ---</b>	<b>\$ 1,569</b>

Additional details of the Company's collateralized mortgage obligations and mortgage-backed securities at December 31, 2008, are described as follows:

	December 31, 2008			Approximate Fair Value
	Amortized Cost	Gross Unrealized Gains (In Thousands)	Gross Unrealized Losses	
<b>Collateralized Mortgage Obligations</b>				
FHLMC Fixed	\$ 12,691	\$ 403	\$ 113	\$ 12,981
GNMA Fixed	48,817	182	—	48,999
<b>Total Agency</b>	<b>61,508</b>	<b>585</b>	<b>113</b>	<b>61,980</b>
Nonagency	12,468	—	2,534	9,934
<b>Total all bonds</b>	<b>\$ 73,976</b>	<b>\$ 585</b>	<b>\$ 2,647</b>	<b>\$ 71,914</b>



	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In Thousands)			
Mortgage-backed securities:				
FHLMC Fixed	\$ 53,137	\$ 1,279	\$ 5	\$ 54,411
FHLMC Hybrid ARM	188,545	1,559	369	189,735
Total FHLMC	241,682	2,838	374	244,146
FNMA Fixed	40,141	1,561	—	41,702
FNMA Hybrid ARM	175,410	1,583	616	176,378
Total FNMA	215,551	3,144	616	218,080
GNMA Fixed	14,441	30	—	14,471
GNMA Hybrid ARM	8,675	17	192	8,499
Total GNMA	23,116	47	192	22,970
Total all bonds	\$ 480,349	\$ 6,029	\$ 1,182	\$ 485,196
Total Fixed	\$ 107,719	\$ 2,870	\$ 5	\$ 110,584
Total Hybrid ARM	372,630	3,159	1,177	374,612
Total all bonds	\$ 480,349	\$ 6,029	\$ 1,182	\$ 485,196

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following tables present the contractual maturities and weighted average tax-equivalent yields of available-for-sale securities at December 31, 2008.

	Cost	Tax-Equivalent Amortized Yield (Dollars in thousands)	Approximate Fair Value
One year or less	\$ ---	---%	\$ ---
After one through five years	924	5.85%	931
After five through ten years	38,315	6.38%	38,071
After ten years	52,774	6.26%	50,062
Securities not due on a single maturity date	554,325	5.11%	557,110
Equity securities	1,552	2.79%	1,504
<b>Total</b>	<b>\$ 647,890</b>	<b>5.27%</b>	<b>\$ 647,678</b>

	One Year or Less	After One Through Five Years	After Five Through Ten Years	After Ten Years	Securities Not Due on a Single Maturity Date	Equity Securities	Total
	(Dollars in thousands)						
U.S. government agencies	\$ ---	\$ ---	\$ 34,968	\$ ---	\$ ---	\$ ---	\$ 34,968
Collateralized mortgage obligations	---	---	---	---	73,976	---	73,976
Mortgage-backed securities	---	---	---	---	480,349	---	480,349
States and political subdivisions	---	924	3,347	51,274	---	---	55,545
Corporate bonds	---	---	---	1,500	---	---	1,500
Equity securities	---	---	---	---	---	1,552	1,552
<b>Total</b>	<b>\$ ---</b>	<b>\$ 924</b>	<b>\$ 38,315</b>	<b>\$ 52,774</b>	<b>\$ 554,325</b>	<b>\$ 1,552</b>	<b>\$ 647,890</b>

The following table presents the contractual maturities and weighted average tax-equivalent yields of held-to-maturity securities at December 31, 2008.

	Cost	Tax-Equivalent Amortized Yield (Dollars in thousands)	Approximate Fair Value
States and political subdivisions:			
After one through five years	\$ ---	---%	\$ ---
After five through ten years	1,260	7.27%	1,315
After ten years	100	10.28%	107

Total	\$	1,360	7.49%	\$	1,422
-------	----	-------	-------	----	-------

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following table shows our investments' gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2008, 2007 and 2006, respectively:

Description of Securities	2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. government agencies	\$ 29,756	\$ 244	\$ ---	\$ ---	\$ 29,756	\$ 244
Mortgage-backed securities	129,048	1,010	8,479	172	137,527	1,182
State and political subdivisions	37,491	1,739	2,124	810	39,615	2,549
Corporate bonds	440	60	766	235	1,206	295
Equity securities	---	---	452	48	452	48
Collateralized mortgage obligations	3,609	232	10,063	2,415	13,672	2,647
	\$ 200,344	\$ 3,285	\$ 21,884	\$ 3,680	\$ 222,228	\$ 6,965

Description of Securities	2007					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. government agencies	\$ 43,418	\$ 80	\$ 13,524	\$ 295	\$ 56,942	\$ 375
Mortgage-backed securities	22,498	100	62,817	816	85,315	916
Collateralized mortgage obligations	11,705	154	18,238	500	29,943	654
State and political subdivisions	23,398	421	2,216	32	25,614	453
Equity securities	4,766	239	---	---	4,766	239
Corporate bonds	1,476	25	---	---	1,476	25
	\$ 107,261	\$ 1,019	\$ 96,795	\$ 1,643	\$ 204,056	\$ 2,662

Description of Securities	2006					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

(Dollars in thousands)

U.S. government agencies	\$	---	\$	---	\$	23,455	\$	798	\$	23,455	\$	798
Mortgage-backed securities		17,772		48		130,509		2,979		148,281		3,027
Collateralized mortgage obligations		---		---		28,246		453		28,246		453
State and political subdivisions		1,685		3		3,090		28		4,775		31
	\$	19,457	\$	51	\$	185,300	\$	4,258	\$	204,757	\$	4,309

On at least a quarterly basis, the Company evaluates the securities portfolio to determine if an other-than-temporary impairment (OTTI) needs to be recorded. For securities in a loss position, the Company determines if the security is a candidate for OTTI consideration using the following criteria:

If it is probable that the issuer of the security will be unable to pay all amounts due according to the

A. contractual terms of the debt security, then the security is written down to fair value as an OTTI due to the credit concern of the issuer.

B. If the Company plans to sell the security and does not expect to recover the loss before the anticipated sale date, then the security is written down to fair value as an OTTI.

If the security does not meet criteria A or B and is in a loss position, the Company determines if the magnitude and duration of the loss require a further review for OTTI. Further review is performed for

C. securities that have been in a loss position for greater than six months and at a current loss of 10% or more, or for other securities as deemed appropriate by the Company.

For those securities meeting these parameters, the Company determines if an other-than-temporary impairment should be recorded in the financial statements.

#### Sources of Funds

General. Deposit accounts have traditionally been the principal source of the Bank's funds for use in lending and for other general business purposes. In addition to deposits, the Bank obtains funds through advances from the Federal Home Loan Bank of Des Moines ("FHLBank") and other borrowings, loan repayments, loan sales, and cash flows generated from operations. Scheduled loan payments are a relatively stable source of funds, while deposit inflows and outflows and the related costs of such funds have varied widely. Borrowings such as FHLBank advances may be used on a short-term basis to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels and may be used on a longer-term basis to support expanded lending activities. The availability of funds from loan sales is influenced by general interest rates as well as the volume of originations.

Deposits. The Bank attracts both short-term and long-term deposits from the general public by offering a wide variety of accounts and rates and also purchases brokered deposits. In recent years, the Bank has been required by market conditions to rely increasingly on short-term accounts and other deposit alternatives that are more responsive to market interest rates. The Bank offers regular savings accounts, checking accounts, various money market accounts, fixed-interest rate certificates with varying maturities, certificates of deposit in minimum amounts of \$100,000 ("Jumbo" accounts), brokered certificates and individual retirement accounts.

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The following table sets forth the dollar amount of deposits, by interest rate range, in the various types of deposit programs offered by the Bank at the dates indicated. Interest rates on time deposits reflect the rate paid to the certificate holder and do not reflect the effects of the Company's interest rate swaps.

	2008		December 31, 2007		2006	
	Amount	Percent of Total	Amount  (Dollars in thousands)	Percent of Total	Amount	Percent of Total
Time deposits:						
0.00% -						
1.99%	\$ 38,987	2.05%	\$ 598	.04%	\$ ---	---%
2.00% -						
2.99%	205,426	10.77	22,850	1.30	1,457	0.09
3.00% -						
3.99%	446,799	23.43	93,717	5.34	155,213	9.13
4.00% -						
4.99%	646,458	33.90	470,718	26.84	358,428	21.08
5.00% -						
5.99%	42,847	2.25	497,877	28.39	567,767	33.39
6.00% -						
6.99%	869	0.05	10,394	0.59	21,694	1.28
7.00% and above	186	0.01	374	0.02	369	0.02
Total time deposits	1,381,572	72.46	1,096,528	62.52	1,104,928	64.99
Non-interest-bearing demand deposits	138,701	7.27	166,231	9.48	205,191	12.07
Interest-bearing demand and savings deposits						
(1.18%-2.75%-3.03%)	386,540	20.27	491,135	28.00	390,158	22.94
	1,906,813	100.00%	1,753,894	100.00%	1,700,277	100.00%
Interest rate swap fair value adjustment	1,215		9,252		3,527	
Total Deposits	\$ 1,908,028		\$ 1,763,146		\$ 1,703,804	

A table showing maturity information for the Bank's time deposits as of December 31, 2008, is presented in Note 6 of the Notes to Consolidated Financial Statements contained in Item 8 of this Report.

The variety of deposit accounts offered by the Bank has allowed it to be competitive in obtaining funds and has allowed it to respond with flexibility to changes in consumer demand. The Bank has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. The Bank manages the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, management believes that its certificate accounts are relatively stable sources of deposits, while its checking accounts have proven to be more volatile. However, the ability of the Bank to attract and maintain deposits, and the rates paid on these deposits, has been and will continue to be significantly affected by money market conditions.



The following table sets forth the time remaining until maturity of the Bank's time deposits as of December 31, 2008. The table is based on information prepared in accordance with generally accepted accounting principles.

	3 Months or Less	Over 3 Months to 6 Months	Maturity Over 6 to 12 Months	Over 12 Months	Total
	(Dollars in thousands)				
Time deposits:					
Less than					
\$100,000	\$ 82,283	\$ 55,069	\$ 74,647	\$ 40,967	\$ 252,966
\$100,000 or more	61,350	26,098	41,082	15,887	144,417
Brokered	218,778	97,134	126,093	532,485	974,490
Public funds(1)	3,440	2,248	1,006	3,005	9,699
Total	\$ 365,851	\$ 180,549	\$ 242,828	\$ 592,344	\$ 1,381,572

(1) Deposits from governmental and other public entities.

Brokered deposits. Brokered deposits are marketed through national brokerage firms to their customers in \$1,000 increments. The Bank maintains only one account for the total deposit amount while the records of detailed owners are maintained by the Depository Trust Company under the name of CEDE & Co. The deposits are transferable just like a stock or bond investment and the customer can open the account with only a phone call, just like buying a stock or bond. This provides a large deposit for the Bank at a lower operating cost since the Bank only has one account to maintain versus several accounts with multiple interest and maturity checks. At December 31, 2008 and 2007, the Bank had approximately \$974.5 million and \$674.6 million in brokered deposits, respectively.

Unlike non-brokered deposits where the deposit amount can be withdrawn prior to maturity with a penalty for any reason, including increasing interest rates, a brokered deposit can only be withdrawn in the event of the death, or court declared mental incompetence, of the depositor. This allows the Bank to better manage the maturity of its deposits. Currently, the rates offered by the Bank for brokered deposits are comparable to that offered for retail certificates of deposit of similar size and maturity.

Included in the brokered deposits total at December 31, 2008, is \$337.1 million which is part of the Certificate of Deposit Account Registry Service (CDARS). This total includes \$168.3 million in CDARS customer deposit accounts and \$168.8 million in CDARS purchased funds. Included in the brokered deposits total at December 31, 2007, is \$164.7 million in CDARS. This total includes \$88.8 in CDARS customer deposit accounts and \$75.9 million in CDARS purchased funds. CDARS customer deposit accounts are accounts that are just like any other deposit account on the Company's books, except that the account total exceeds the FDIC deposit insurance maximum. When a customer places a large deposit with a CDARS Network bank, that bank uses CDARS to place the funds into deposit accounts issued by other banks in the CDARS Network. This occurs in increments of less than the standard FDIC insurance maximum, so that both principal and interest are eligible for complete FDIC protection. Other Network Members do the same thing with their customers' funds.

CDARS purchased funds transactions represent an easy, cost-effective source of funding without collateralization or credit limits for the Company. Purchased funds transactions help the Company obtain large blocks of funding while providing control over pricing and diversity of wholesale funding options. Purchased funds transactions are obtained through a bid process that occurs weekly, with varying maturity terms.

The Company has used interest rate swaps to manage its interest rate risks from recorded financial liabilities. The Company has entered into interest rate swap agreements with the objective of economically hedging against the effects of changes in the fair value of its liabilities for fixed rate brokered certificates of deposit caused by changes

in market interest rates. These interest rate swaps have allowed the Company to create funding of varying maturities at a variable rate that in the past has approximated three-month LIBOR.

**Borrowings.** Great Southern's other sources of funds include advances from the FHLBank and a Qualified Loan Review ("QLR") arrangement with the FRB and other borrowings.

As a member of the FHLBank, the Bank is required to own capital stock in the FHLBank and is authorized to apply for advances from the FHLBank. Each FHLBank credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLBank may prescribe the acceptable uses for these advances, as well as other risks on availability, limitations on the size of the advances and repayment provisions. At December 31, 2008 and 2007, the Bank's FHLBank advances outstanding were \$120.5 million and \$213.9 million, respectively.

The FRB has a QLR program where the Bank can borrow on a temporary basis using commercial loans pledged to the FRB. Under the QLR program, the Bank can borrow any amount up to a calculated collateral value of the commercial loans pledged, for virtually any reason that creates a temporary cash need. Examples of this could be: (1) the need to fund for late outgoing wires or cash letter settlements, (2) the need to disburse one or several loans but the permanent source of funds will not be available for a few days; (3) a temporary spike in interest rates on other funding sources that are being used; or (4) the need to purchase a security for collateral pledging purposes a few days prior to the funds becoming available on an existing security that is maturing. The Bank had commercial loans pledged to the FRB at December 31, 2008 that would have allowed approximately \$215.3 million to be borrowed under the above arrangement. Other than the Term Auction Facility described below, there were no outstanding borrowings from the FRB at December 31, 2008.

In December 2007, the FRB established a temporary Term Auction Facility ("TAF"). Under the TAF program, the FRB auctions term funds to depository institutions against the collateral that can be used to secure loans at the discount window. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank and that are eligible to borrow under the primary credit discount window program are eligible to participate in TAF auctions. All advances must be fully collateralized. Each TAF auction is for a fixed amount and a fixed maturity date, with the rate determined by the auction process. At December 31, 2008, the Bank had an outstanding balance of \$83.0 million under the TAF program, which consisted of two advances. The first advance was \$58.0 million with an interest rate of 0.60%, maturing on January 29, 2009. This advance was replaced on January 29, 2009, with a new advance of \$60.0 million with an interest rate of 0.25%, maturing on April 23, 2009. The second advance was \$25.0 million with an interest rate of 0.42%, maturing on February 26, 2009. This advance was replaced on February 26, 2009, with a new advance of \$25.0 million with an interest rate of 0.25%, maturing on May 21, 2009.

Great Southern Capital Trust I ("Trust I"), a Delaware statutory trust, issued 1,725,000 shares of unsecured 9.00% Cumulative Trust Preferred Securities at \$10 per share in an underwritten public offering. The gross proceeds of the offering were used to purchase 9.00% Junior Subordinated Debentures from the Company totaling \$17.8 million. The Company's proceeds from the issuance of the Subordinated Debentures to Trust I, net of underwriting fees and offering expenses, were \$16.3 million. The Subordinated Debentures were scheduled to mature in 2031; however, the Company elected to redeem the debentures (and as a result the Trust I Securities) in November 2006. As a result of the redemption of the Trust I securities, approximately \$510,000 (after tax) of related unamortized issuance costs were written off as a noncash expense in 2006. The Company entered into an interest rate swap agreement to effectively convert the subordinated debentures, which are fixed rate debt, into variable rates of interest. The variable rate was three-month LIBOR plus 202 basis points, adjusting quarterly. This interest rate swap was terminated in November 2006 at no cost to the Company.

In November 2006, Great Southern Capital Trust II ("Trust II"), a statutory trust formed by the Company for the purpose of issuing the securities, issued \$25,000,000 aggregate liquidation amount of floating rate cumulative trust

preferred securities. The Trust II securities bear a floating distribution rate equal to 90-day LIBOR plus 1.60%. The Trust II securities are redeemable at the Company's option beginning in February 2012, and if not sooner redeemed, mature on February 1, 2037. The Trust II securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$25.8 million. The initial interest rate on the Trust II debentures was 6.98%. The interest rate was 4.79% and 6.51% at December 31, 2008 and 2007, respectively.

In July 2007, Great Southern Capital Trust III ("Trust III"), a statutory trust formed by the Company for the purpose of issuing the securities, issued \$5,000,000 aggregate liquidation amount of floating rate cumulative trust preferred securities. The Trust III securities bear a floating distribution rate equal to 90-day LIBOR plus 1.40%. The Trust III securities are redeemable at the Company's option beginning in October 2012, and if not sooner redeemed, mature on October 1, 2037. The Trust III securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$5.2 million. The initial interest rate on the Trust III debentures was 6.76%. The interest rate was 5.28% and 6.63% at December 31, 2008 and 2007, respectively.

The following table sets forth the maximum month-end balances, average daily balances and weighted average interest rates of FHLBank advances during the periods indicated.

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
FHLBank Advances:			
Maximum balance	\$ 198,273	\$ 213,867	\$ 263,984
Average balance	133,477	144,773	180,414
Weighted average interest rate	3.75%	4.81%	4.51%

The following table sets forth certain information as to the Company's FHLBank advances at the dates indicated.

	December 31,		
	2008	2007	2006
	(Dollars in thousands)		
FHLBank advances	\$ 120,472	\$ 213,867	\$ 179,170
Weighted average interest rate of FHLBank advances	3.30%	4.22%	5.13%

The following tables set forth the maximum month-end balances, average daily balances and weighted average interest rates of other borrowings during the periods indicated. Other borrowings includes primarily overnight borrowings and securities sold under reverse repurchase agreements.

	Year Ended December 31, 2008		
	Maximum Balance	Average Balance	Weighted Average Interest Rate
	(Dollars in thousands)		
Other Borrowings:			
Overnight borrowings	\$ 60,900	\$ 4,291	3.12%
	85,000	63,682	2.35

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Federal Reserve term auction facility			
Securities sold under reverse repurchase agreements	229,274	179,117	2.02
Other	367	159	---
Total		\$ 247,249	2.12%
Total maximum month-end balance	\$ 298,262		

	Year Ended December 31, 2007		
	Maximum	Average	Weighted
	Balance	Balance	Average
			Interest
			Rate
	(Dollars in thousands)		
Other Borrowings:			
Overnight borrowings	\$ 30,000	\$ 7,820	5.24%
Securities sold under reverse repurchase agreements	184,214	162,346	4.26
Federal Reserve term auction facility	50,000	779	4.86
Other	4	1	---
Total		\$ 170,946	4.30%
Total maximum month-end balance	\$ 216,721		

	Year Ended December 31, 2006		
	Maximum	Average	Weighted
	Balance	Balance	Average
			Interest
			Rate
	(Dollars in thousands)		
Other Borrowings:			
Overnight borrowings	\$ 37,000	\$ 6,831	5.26%
Securities sold under reverse repurchase agreements	153,819	122,688	4.31
Other	3	4	---
Total		\$ 129,523	4.36%
Total maximum month-end balance	\$ 186,688		

The following tables set forth year-end balances and weighted average interest rates of the Company's other borrowings at the dates indicated.

	December 31, 2008	
	Balance	Weighted
		Average
		Interest
		Rate
	(Dollars in thousands)	
Other borrowings:		
Federal Reserve term auction facility	\$ 83,000	0.55%
Securities sold under reverse repurchase agreements	215,261	1.67

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Other	368	---
Total	\$ 298,629	1.35%



	December 31, 2007	
	Balance	Weighted Average Interest Rate
	(Dollars in thousands)	
Other borrowings:		
Overnight borrowings	\$ 23,000	3.18%
Securities sold under reverse repurchase agreements	143,721	3.52
Federal Reserve term auction facility	50,000	4.67
Total	\$ 216,721	3.75%

	December 31, 2006	
	Balance	Weighted Average Interest Rate
	(Dollars in thousands)	
Other borrowings:		
Securities sold under reverse repurchase agreements	\$ 120,956	4.45%
Total	\$ 120,956	4.45%

The following table sets forth the maximum month-end balances, average daily balances and weighted average interest rates of structured repurchase agreements during the periods indicated.

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Structured repurchase agreements:			
Maximum balance	\$ 50,000	\$ ---	\$ ---
Average balance	14,754	---	---
Weighted average interest rate	4.34%	---%	---%

The following table sets forth certain information as to the Company's structured repurchase agreements at the dates indicated.

	December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Structured repurchase agreements	\$ 50,000	\$ ---	\$ ---

Weighted average interest rate of subordinated debentures	4.34%	---%	---%
---	-------	------	------

The following table sets forth the maximum month-end balances, average daily balances and weighted average interest rates of subordinated debentures issued to capital trust during the periods indicated.

	2008	Year Ended December 31,	
		2007	2006
		(Dollars in thousands)	
Subordinated debentures:			
Maximum balance	\$ 30,929	\$ 30,929	\$ 25,774
Average balance	30,929	28,223	18,739
Weighted average interest rate	4.73%	6.78%	7.12%

The following table sets forth certain information as to the Company's subordinated debentures issued to capital trust at the dates indicated.

	2008	December 31,	
		2007	2006
		(Dollars in thousands)	
Subordinated debentures	\$ 30,929	\$ 30,929	\$ 25,774
Weighted average interest rate of subordinated debentures	4.87%	6.53%	6.98%

#### Subsidiaries

Great Southern. As a Missouri-chartered trust company, Great Southern may invest up to 3%, which was equal to \$79.6 million at December 31, 2008, of its assets in service corporations. At December 31, 2008, the Bank's total investment in Great Southern Real Estate Development Corporation ("Real Estate Development") was \$2.4 million. Real Estate Development was incorporated and organized in 2003 under the laws of the State of Missouri. At December 31, 2008, the Bank's total investment in Great Southern Financial Corporation ("GSFC") was \$4.1 million. GSFC is incorporated under the laws of the State of Missouri, and does business as Great Southern Insurance and Great Southern Travel. At December 31, 2008, the Bank's total investment in Great Southern Community Development Corporation ("Community Development") was \$1.7 million. Community Development was incorporated and organized in 2004 under the laws of the State of Missouri. At December 31, 2008, the Bank's total investment in GS, L.L.C. ("GSLLC") was \$2.4 million. GSLLC was incorporated and organized in 2005 under the laws of the State of Missouri. At December 31, 2008, the Bank's total investment in GSSC, L.L.C. ("GSSCLLC") was \$1.5 million. GSSCLLC was incorporated and organized in 2007 under the laws of the State of Missouri. These subsidiaries are primarily engaged in the activities described below. At December 31, 2008, the Bank's total investment in GSRE Holding I, L.L.C. ("GSRE Holding I") was \$-0-. GSRE Holding I was incorporated and organized in 2008 under the laws of the State of Missouri. At December 31, 2008, the Bank's total investment in GSRE Holding II, L.L.C. ("GSRE Holding II") was \$-0-. GSRE Holding II was incorporated and organized in 2008 under the laws of the State of Missouri. In addition, Great Southern has two other subsidiary companies that are not considered service corporations, GSB One, L.L.C. and GSB Two, L.L.C. These companies are also described below.

Great Southern Real Estate Development Corporation. Generally, the purpose of Real Estate Development is to hold real estate assets which have been obtained through foreclosure by the Bank and which require ongoing operation of a business or completion of construction. In 2008 and 2007, Real Estate Development did not hold any significant real estate assets. Real Estate Development had net income of \$-0- and \$-0- in the years ended December 31, 2008 and 2007, respectively.

General Insurance Agency. Great Southern Insurance, a division of GSFC, was organized in 1974. It acts as a general property, casualty and life insurance agency for a number of clients, including the Bank. Great Southern Insurance had

net income of \$140,000 and \$189,000 in the years ended December 31, 2008 and 2007, respectively. In addition, Great Southern Insurance had gross revenues of \$1.5 million and \$1.6 million in the years ended December 31, 2008 and 2007, respectively.

Travel Agency. Great Southern Travel, a division of GSFC, was organized in 1976. At December 31, 2008, it was the largest travel agency based in southwestern Missouri and was estimated to be in the top 5% (based

on gross revenue) of travel agencies nationwide. Great Southern Travel operates from thirteen full-time locations, including a facility at the Springfield-Branson National Airport, and additional corporate on-site locations. It engages in personal, commercial and group travel services. Great Southern Travel had net income (loss) of \$(43,000) and \$195,000 in the years ended December 31, 2008 and 2007, respectively. In addition, Great Southern Travel had gross revenues of \$6.2 million and \$6.7 million in the years ended December 31, 2008 and 2007, respectively.

**GSB One, L.L.C.** At December 31, 2008, the Bank's total investment in GSB One, L.L.C. ("GSB One") and GSB Two, L.L.C. ("GSB Two") was \$713 million. The capital contribution was made by transferring participations in loans to GSB Two. GSB One is a Missouri limited liability company that was formed in March of 1998. Currently the only activity of this company is the ownership of GSB Two.

**GSB Two, L.L.C.** This is a Missouri limited liability company that was formed in March of 1998. GSB Two is a real estate investment trust ("REIT"). It holds participations in real estate mortgages from the Bank. The Bank continues to service the loans in return for a management and servicing fee from GSB Two. GSB Two had net income of \$33.0 million and \$39.3 million in the years ended December 31, 2008 and 2007, respectively.

**Great Southern Community Development Corporation.** Generally, the purpose of Community Development is to invest in community development projects that have a public benefit, and are permissible under Missouri law. These include such activities as investing in real estate and investing in other community development corporations. Community Development had net income of \$-0- and a net loss of \$1,000 in the years ended December 31, 2008 and 2007, respectively.

**GSRE Holding I, L.L.C.** Generally, the purpose of GSRE Holding I is to hold real estate assets which have been obtained through foreclosure by the Bank and which require ongoing operation of a business or completion of construction. In 2008, GSRE Holding I did not hold any significant real estate assets. GSRE Holding I had net income of \$-0- in the year ended December 31, 2008.

**GSRE Holding II, L.L.C.** Generally, the purpose of GSRE Holding II is to hold real estate assets which have been obtained through foreclosure by the Bank and which require ongoing operation of a business or completion of construction. In 2008, GSRE Holding II did not hold any significant real estate assets. GSRE Holding II had net income of \$-0- in the year ended December 31, 2008.

**GS, L.L.C.** GS, L.L.C. was organized in 2005. GSLLC is a limited liability corporation that invests in multiple limited liability corporations (as a limited partner) for the purpose of acquiring state and federal historic tax credits which are utilized by Great Southern. GSLLC had net losses of \$1.6 million and \$2.3 million in the years ended December 31, 2008 and 2007, respectively, which primarily resulted from the cost to acquire tax credits. These losses were offset by the tax credits utilized by Great Southern.

**GSSC, L.L.C.** GSSC, L.L.C. was organized in 2007. GSSCLLC is a limited liability corporation that invests in multiple limited liability corporations (as a limited partner) for the purpose of acquiring state tax credits which are utilized by Great Southern or sold to third parties. GSSCLLC had net income of \$307,000 and \$-0- in the years ended December 31, 2008 and 2007, respectively.

## Competition

Great Southern faces strong competition both in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other commercial banks, savings institutions and mortgage bankers making loans secured by real estate located in the Bank's market area. Commercial banks and finance companies provide vigorous competition in commercial and consumer lending. The Bank competes for real

estate and other loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers. The other lines of business of the Bank, including loan servicing and loan sales, as well as the Bank and Company subsidiaries, face significant competition in their markets.

The Bank faces substantial competition in attracting deposits from other commercial banks, savings institutions, money market and mutual funds, credit unions and other investment vehicles. The Bank attracts a significant amount of deposits through its branch offices primarily from the communities in which those branch offices are located; therefore, competition for those deposits is principally from other commercial banks and savings institutions located in the same communities. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch and ATM locations with inter-branch deposit and withdrawal privileges at each branch location.

#### Employees

At December 31, 2008, the Bank and its affiliates had a total of 741 employees, including 185 part-time employees. None of the Bank's employees are represented by any collective bargaining agreement. Management considers its employee relations to be good.

#### Government Supervision and Regulation

##### General

On June 30, 1998, the Bank converted from a federal savings bank to a Missouri-chartered trust company, with the approval of the Missouri Division of Finance ("MDF") and the FRB. The Bank is regulated as a bank under state and federal law. By converting, the Bank was able to expand its consumer and commercial lending authority.

The Company and its subsidiaries are subject to supervision and examination by applicable federal and state banking agencies. The earnings of the Bank's subsidiaries, and therefore the earnings of the Company, are affected by general economic conditions, management policies and the legislative and governmental actions of various regulatory authorities, including the FRB, the Federal Deposit Insurance Corporation ("FDIC") and the MDF. The following is a brief summary of certain aspects of the regulation of the Company and the Bank and does not purport to fully discuss such regulation.

##### Bank Holding Company Regulation

The Company is a bank holding company that has elected to be treated as a financial holding company by the FRB. Financial holding companies are subject to comprehensive regulation by the FRB under the Bank Holding Company Act, and the regulations of the FRB. As a financial holding company, the Company is required to file reports with the FRB and such additional information as the FRB may require, and is subject to regular examinations by the FRB. The FRB also has extensive enforcement authority over financial holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under FRB policy, a bank holding company must serve as a source of strength for its subsidiary banks. Under this policy, the FRB may require, and has required in the past, that a bank holding company contribute additional capital to an undercapitalized subsidiary bank.

Under the Bank Holding Company Act, a financial holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank or financial holding company; or (iii) merging or consolidating with another bank or financial holding company.

The Bank Holding Company Act also prohibits a financial holding company generally from engaging directly or indirectly in activities other than those involving banking, activities closely related to banking that are permitted for a bank holding company, securities, insurance or merchant banking.

#### Interstate Banking and Branching

Federal law allows the FRB to approve an application of a bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home



state, without regard to whether the transaction is prohibited by the laws of any state. The FRB may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state. Federal law also prohibits the FRB from approving such an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or if the applicant would control 30% or more of the deposits in any state in which the target bank maintains a branch and in which the applicant or any of its depository institution affiliates controls a depository institution or branch immediately prior to the acquisition of the target bank. Federal law does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit.

The federal banking agencies are generally authorized to approve interstate bank merger transactions without regard to whether such transactions are prohibited by the law of any state. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above.

Federal law also authorizes the Office of the Comptroller of the Currency ("OCC"), FRB and the FDIC to approve interstate branching de novo by national and state banks, respectively, only in states which specifically allow for such branching. As required by federal law, the OCC, FDIC and FRB have prescribed regulations which prohibit any out-of-state bank from using the interstate branching authority primarily for the purpose of deposit production, including guidelines to ensure that interstate branches operated by an out-of-state bank in a host state reasonably help to meet the credit needs of the communities which they serve.

#### Certain Transactions with Affiliates and Other Persons

Transactions involving the Bank and its affiliates are subject to sections 23A and 23B of the Federal Reserve Act, and regulations thereunder, which impose certain quantitative limits and collateral requirements on such transactions, and require all such transactions to be on terms at least as favorable to the Bank as are available in transactions with non-affiliates.

All loans by the Bank to the principal shareholders, directors and executive officers of the Bank or any affiliate are subject to FRB regulations restricting loans and other transactions with affiliated persons of the Bank. Transactions involving such persons must be on terms and conditions comparable to those for similar transactions with non-affiliates. A bank may have a policy allowing favorable rate loans to employees as long as it is an employee benefit available to bank employees generally. The Bank has such a policy in place that allows for loans to all employees.

#### Dividends

The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, a bank holding company may be prohibited from paying any dividends if the holding company's bank subsidiary is not adequately capitalized.

A bank holding company is required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net

consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order, or any condition imposed by, or written agreement with, the FRB. This notification requirement does not apply to any company that meets the well-capitalized standard for bank holding companies, is well-managed, and is not subject to any unresolved supervisory issues. Under Missouri law, the Bank may pay dividends from certain undivided profits and may not pay dividends if its capital is impaired.

The Federal banking agencies have adopted various capital-related regulations. Under those regulations, a bank will be well capitalized if it has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based ratio of 6% or greater; (iii) a leverage ratio of 5% or greater; and (iv) is not subject to a regulatory requirement to maintain any specific capital measure. A bank will be adequately capitalized if it is not "well capitalized" and: (i) has a total risk-based capital ratio of 8% or greater; (ii) has a Tier 1 risk-based ratio of 4% or greater; and (iii) has a leverage ratio of 4% or greater. As of December 31, 2008, the Bank was "well capitalized."

Federal banking agencies take into consideration concentrations of credit risk and risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will generally be made as part of the institution's regular safety and soundness examination. Under their regulations, the federal banking agencies consider interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in the evaluation of a bank's capital adequacy. The banking agencies have issued guidance on evaluating interest rate risk.

The FRB has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. To be considered "well capitalized," a bank holding company must have, on a consolidated basis, a total risk-based capital ratio of 10.0% or greater and a Tier 1 risk-based capital ratio of 6.0% or greater and must not be subject to an individual order, directive or agreement under which the FRB requires it to maintain a specific capital level. As of December 31, 2008, the Company was "well capitalized."

#### Insurance of Accounts and Regulation by the FDIC

Great Southern is a member of the Deposit Insurance Fund (the "DIF"), which is administered by the FDIC. Deposits are insured up to the applicable limits by the FDIC, backed by the full faith and credit of the United States Government. Under new legislation, during the period from October 3, 2008 through December 31, 2009, the basic deposit insurance limit is \$250,000, instead of the \$100,000 limit in effect earlier.

The FDIC assesses deposit insurance premiums on all FDIC-insured institutions quarterly based on annualized rates for four risk categories. Each institution is assigned to one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. Under FDIC's risk-based assessment rules, effective April 1, 2009, the initial base assessment rates prior to adjustments range from 12 to 16 basis points for Risk Category I, and are 22 basis points for Risk Category II, 32 basis points for Risk Category III, and 45 basis points for Risk Category IV. Initial base assessment rates are subject to adjustments based on an institution's unsecured debt, secured liabilities and brokered deposits, such that the total base assessment rates after adjustments range from 7 to 24 basis points for Risk Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV. The rule also includes authority for the FDIC to increase or decrease total base assessment rates in the future by as much as three basis points without a formal rulemaking proceeding.

In addition to the regular quarterly assessments, due to losses and projected losses attributed to failed institutions, the FDIC has adopted a rule, effective April 1, 2009, imposing on every insured institution a special assessment equal to 20 basis points of its assessment base as of June 30, 2009, to be collected on September 30, 2009. There is a proposal under discussion, under which the FDIC's line of credit with the U.S. Treasury would be increased and the FDIC would reduce the special assessment to 10 basis points. There can be no assurance whether the proposal will become effective. The special assessment rule also authorizes the FDIC to impose additional special assessments if the reserve ratio of the DIF is estimated to fall to a level that the FDIC's board believes would adversely affect public confidence or that is close to zero or negative. Any additional special assessment would be in amount up to 10 basis points on the

assessment base for the quarter in which it is imposed and would be collected at the end of the following quarter.

The FDIC also collects assessments against the assessable deposits of insured institutions to service the debt on bonds issued during the 1980's to resolve the thrift bailout. For the quarter ended December 31, 2008, the assessment rate was 1.10 basis points per \$100 of assessable deposits. For the first quarter of 2009, the rate is 1.14 basis points.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against banks and savings associations.

The Federal banking regulators are required to take prompt corrective action if an institution fails to satisfy the requirements to qualify as adequately capitalized. All institutions, regardless of their capital levels, will be restricted from making any capital distribution or paying any management fees that would cause the institution to fail to satisfy the requirements to qualify as adequately capitalized. An institution that is not at least adequately capitalized will be: (i) subject to increased monitoring by the appropriate Federal banking regulator; (ii) required to submit an acceptable capital restoration plan (including certain guarantees by any company controlling the institution) within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of business. Additional restrictions, including appointment of a receiver or conservator, can apply, depending on the institution's capital level. The FDIC has jurisdiction over the Bank for purposes of prompt corrective action.

#### Temporary Liquidity Guarantee Program

Following a systemic risk determination, the FDIC established its Temporary Liquidity Guarantee Program (the "TLGP") in October 2008. Under the interim rule for the TLGP, there are two parts to the program: the Debt Guarantee Program (the "DGP") and the Transaction Account Guarantee Program (the "TAGP"). Eligible entities continue to participate unless they opted out on or before December 5, 2008.

For the DGP, eligible entities are generally U.S. bank holding companies, savings and loan holding companies, and FDIC-insured institutions. Under the DGP, the FDIC guarantees new senior unsecured debt of an eligible entity issued not later than June 30, 2009, and, if an application is approved, guarantees certain mandatory convertible debt. The guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the eligible entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009, or for certain institutions, 2% of liabilities as of September 30, 2008. The nonrefundable DGP fee ranges from 50 to 100 basis points (annualized), depending on maturity, for covered debt outstanding during the period until the earlier of maturity or June 30, 2012. Eligible debt of a participating entity becomes covered when and as issued until the coverage limit is reached, except that participating entities could elect to have the option issuing non-guaranteed debt maturing after June 30, 2012 without regard to the guarantee limit by notifying the FDIC of the election by December 5, 2008 and agreeing to pay a separate fee. Great Southern Bank and the Company participate in the DGP and did not elect the option for non-guaranteed debt.

For the TAGP, eligible entities are FDIC-insured institutions. Under the TAGP, the FDIC provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts), NOW accounts bearing interest at 0.5% or less, and certain funds swept into noninterest-bearing savings accounts. NOW accounts and money market deposit accounts are not covered. Participating institutions pay fees of 10 basis points (annualized) on the balance of each covered account in excess of \$250,000 during the period through December 31, 2009. Great Southern Bank participates in the TAGP.

#### Federal Reserve System

The FRB requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. At December 31, 2008, the Bank was in compliance with these reserve requirements.

Banks are authorized to borrow from the FRB "discount window," but FRB regulations only allow this borrowing for short periods of time and generally require banks to exhaust other reasonable alternative sources of funds where practical, including FHLBank advances, before borrowing from the FRB. See "Sources of Funds Borrowings" above.

#### Federal Home Loan Bank System

The Bank is a member of the FHLBank of Des Moines, which is one of 12 regional FHLBanks.

As a member, Great Southern is required to purchase and maintain stock in the FHLBank of Des Moines in an amount equal to the greater of 1% of its outstanding home loans or 5% of its outstanding FHLBank advances. At December 31, 2008, Great Southern had \$8.3 million in FHLBank stock, which was in compliance with this requirement. In past years, the Bank has received dividends on its FHLBank stock. Over the past five years, such dividends have averaged 3.39% and were 3.88% for year the ended December 31, 2008.

#### Legislative and Regulatory Proposals

Any changes in the extensive regulatory scheme to which the Company or the Bank is and will be subject, whether by any of the Federal banking agencies or Congress, could have a material effect on the Company or the Bank, and the Company and the Bank cannot predict what, if any, future actions may be taken by legislative or regulatory authorities or what impact such actions may have.

#### Federal and State Taxation

The following discussion contains a summary of certain federal and state income tax provisions applicable to the Company and the Bank. It is not a comprehensive description of the federal income tax laws that may affect the Company and the Bank. The following discussion is based upon current provisions of the Internal Revenue Code of 1986 (the "Code") and Treasury and judicial interpretations thereof.

#### General

The Company and its subsidiaries file a consolidated federal income tax return using the accrual method of accounting, with the exception of GSB Two which files a separate return as a REIT. All corporations joining in the consolidated federal income tax return are jointly and severally liable for taxes due and payable by the consolidated group. The following discussion primarily focuses upon the taxation of the Bank, since the federal income tax law contains certain special provisions with respect to banks.

Financial institutions, such as the Bank, are subject, with certain exceptions, to the provisions of the Code generally applicable to corporations.

#### Bad Debt Deduction

As of December 31, 2008 and 2007, retained earnings included approximately \$17.5 million for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only for tax years prior to 1988. If the Bank were to liquidate, the entire amount would have to be recaptured and would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$6.5 million at December 31, 2008 and 2007.

The Bank is required to follow the specific charge-off method which only allows a bad debt deduction equal to actual charge-offs, net of recoveries, experienced during the fiscal year of the deduction. In a year where recoveries exceed charge-offs, the Bank would be required to include the net recoveries in taxable income.

#### Interest Deduction

In the case of a financial institution, such as the Bank, no deduction is allowed for the pro rata portion of its interest expense which is allocable to tax-exempt interest on obligations acquired after August 7, 1986. A limited class of

tax-exempt obligations acquired after August 7, 1986 will not be subject to this complete disallowance rule. For tax-exempt obligations acquired after December 31, 1982 and before August 8, 1986 and for obligations acquired after August 7, 1986 that are not subject to the complete disallowance rule, 80% of interest incurred to purchase or carry such obligations will be deductible. No portion of the interest expense allocable to tax-exempt obligations acquired by a financial institution before January 1, 1983, which is otherwise deductible, will be disallowed. The interest expense disallowance rules cited above have not significantly impacted the Bank.



#### Alternative Minimum Tax

Corporations generally are subject to a 20% corporate alternative minimum tax ("AMT"). A corporation must pay the AMT to the extent it exceeds that corporation's regular federal income tax liability. The AMT is imposed on "alternative minimum taxable income," defined as taxable income with certain adjustments and tax preference items, less any available exemption. Such adjustments and items include, but are not limited to, (i) net interest received on certain tax-exempt bonds issued after August 7, 1986; and (ii) 75% of the difference between adjusted current earnings and alternative minimum taxable income, as otherwise determined with certain adjustments. Net operating loss carryovers may be utilized, subject to adjustment, to offset up to 90% of the alternative minimum taxable income, as otherwise determined. Any AMT paid may be credited against future regular federal income tax liabilities to the extent the regular federal income tax liability exceeds the AMT liability.

#### Missouri Taxation

Missouri-based banks, such as the Bank, are subject to a franchise tax which is imposed on the larger of (i) the bank's taxable income at the rate of 7% of the taxable income (determined without regard for any net operating losses) - income-based calculation; or (ii) the bank's assets at a rate of .033% of total assets less deposits and the investment in greater than 50% owned subsidiaries - asset-based calculation. Missouri-based banks are entitled to a credit against the income-based franchise tax for all other state or local taxes on banks, except taxes on real estate, unemployment taxes, bank tax, and taxes on tangible personal property owned by the Bank and held for lease or rental to others.

The Company and all subsidiaries are subject to an income tax that is imposed on the corporation's taxable income at the rate of 6.25%. The return is filed on a consolidated basis by all members of the consolidated group including the Bank, but excluding GSB Two. As a REIT, GSB Two files a separate Missouri income tax return.

The Bank also has loan production offices in Kansas and Arkansas and therefore is subject to franchise and income taxes that are imposed on the corporation's taxable income attributable to those states. Historically, franchise and income taxes owed to Kansas and Arkansas have not been significant.

#### Maryland Taxation

As a Maryland corporation, the Company is required to file an annual report with and pay an annual fee to the State of Maryland.

#### Examinations

The Company and its consolidated subsidiaries have not been audited recently by the Internal Revenue Service or the State of Missouri with respect to income or franchise tax returns, and as such, tax years through December 31, 2004, have been closed without audit.

### ITEM 1A. RISK FACTORS

An investment in the common stock of the Company is speculative in nature and is subject to certain risks inherent in the business of the Company and the Bank. The material risks and uncertainties that management believes affect the Company and the Bank are described below. You should carefully consider the risks described below, as well as the other information included in this Annual Report on Form 10-K, before making an investment in the Company's common stock. The risks described below are not the only ones we face in our business. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business

operations. If any of the following risks occur, our business, financial condition or operating results could be materially harmed. In such an event, our common stock could decline in price.

References to "we," "us," and "our" in this "Risk Factors" section refer to the Company and its subsidiaries, including the Bank, unless otherwise specified or unless the context otherwise requires.

## Risks Relating to the Company and the Bank

Since our business is primarily concentrated in the Southwest Missouri area, including the Springfield metropolitan area and Branson, a downturn in the Springfield or Branson economies may adversely affect our business.

Our lending and deposit gathering activities have been historically concentrated primarily in the Springfield and Branson, Missouri areas. Our success depends on the general economic condition of Springfield and Branson and their surrounding areas. Although we believe the economy in these areas has been favorable, we do not know whether these conditions will continue. Our greatest concentration of loans and deposits is in the Greater Springfield area. With a population of approximately 420,000, the Greater Springfield area is the third largest metropolitan area in Missouri.

Another large concentration of loans contiguous to Springfield is in the Branson area. The region is a vacation and entertainment center, attracting tourists to its lakes, theme parks, resorts, country music and novelty shows and other recreational facilities. The Branson area experienced rapid growth in the early 1990's, with stable to slightly negative growth trends occurring in the late 1990's and into the early 2000's. Branson is currently experiencing growth again as a result of a large retail, hotel, convention center project which has been constructed in Branson's historic downtown. This project has created hundreds of new jobs in the area. In addition, several large national retailers have opened new stores in Branson. At December 31, 2008, approximately 12% of our loan portfolio consisted of loans in the two county region that includes the Branson area.

Adverse changes in the regional and general economic conditions could reduce our growth rate, impair our ability to collect loans, increase loan delinquencies, increase problem assets and foreclosure, increase claims and lawsuits, decrease the demand for the Bank's products and services, and decrease the value of collateral for loans, especially real estate, thereby having a material adverse effect on our financial condition and results of operations.

Our loan portfolio possesses increased risk due to our relatively high concentration of commercial and residential construction, commercial real estate, multi-family and other commercial loans.

Our commercial and residential construction, commercial real estate, multi-family and other commercial loans accounted for approximately 77.1% of our total loan portfolio as of December 31, 2008. Generally, we consider these types of loans to involve a higher degree of risk compared to first mortgage loans on one- to four-family, owner-occupied residential properties. At December 31, 2008, we had \$164.7 million of loans secured by apartments, \$159.8 million of loans secured by healthcare facilities, \$121.9 million of loans secured by retail-related projects, \$119.6 million of loans secured by motels, \$110.5 million of loans secured by residential subdivisions, \$89.7 million of loans secured by condominiums and \$139.6 million of loans secured by business assets or stock investments, which are particularly sensitive to certain risks including the following:

- large loan balances owed by a single borrower;
- payments that are dependent on the successful operation of the project; and
- loans that are more directly impacted by adverse conditions in the real estate market or the economy generally.

The risks associated with construction lending include the borrower's inability to complete the construction process on time and within budget, the sale of the project within projected absorption periods, the economic risks associated with real estate collateral, and the potential of a rising interest rate environment. These loans may include financing the development and/or construction of residential subdivisions. This activity may involve financing land purchase, infrastructure development (i.e. roads, utilities, etc.), as well as construction of residences or multi-family dwellings for subsequent sale by the developer/builder. Because the sale of developed properties is critical to the success of

developer business, loan repayment may be especially subject to the volatility of real estate market values. Management has established underwriting and monitoring criteria to help minimize the inherent risks of commercial real estate construction lending. However, there is no guaranty that these controls and procedures will avoid all losses on this type of lending.

Commercial and multi-family real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Other commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business or investment. These loans may therefore be more adversely affected by conditions in the real estate markets or in the economy generally. For example, if the cash flow from the borrower's project is reduced due to leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. In addition, many commercial and multi-family real estate loans are not fully amortized over the loan period, but have balloon payments due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or completing a timely sale of the underlying property.

We plan to continue to originate commercial real estate and construction loans based on economic and market conditions. In the current economic situation, we do not anticipate that there will be significant demand for these types of loans in 2009. Because of the increased risks related to these types of loans, we may determine it necessary to increase the level of our provision for loan losses. Increased provisions for loan losses would adversely impact our operating results. See "Item 1. Business-The Company-Lending Activities-Commercial Real Estate and Construction Lending," "-Other Commercial Lending," "-Residential Real Estate Lending" and "-Allowance for Losses on Loans and Foreclosed Assets" and "Item 7. Management's Discussion of Financial Condition and Results of Operations -- Non-performing Assets -- Subsequent Events Regarding Potential Problem Loans" in this Annual Report on Form 10-K.

A slowdown in the residential or commercial real estate markets may have a negative impact on our earnings and liquidity position.

The overall credit quality of our construction loan portfolio is impacted by trends in real estate values. We continually monitor changes in key regional and national economic factors because changes in these factors can impact our residential and commercial construction loan portfolio and the ability of our borrowers to repay their loans. Across the United States over the past year, the residential real estate market began to experience significant adverse trends, including accelerated price depreciation and rising delinquency and default rates, and weaknesses are beginning to be seen in the commercial real estate market as well. The conditions in the residential real estate market have led to significant increases in loan delinquencies and credit losses as well as higher provisioning for loan losses which in turn have had a negative effect on earnings for many banks across the country. Likewise, we have also experienced loan delinquencies in our construction loan portfolio. The current slowdown in both the residential and the commercial real estate markets could continue to negatively impact real estate values and the ability of our borrowers to liquidate properties. Despite reduced sales prices, the lack of liquidity in the real estate market and tightening of credit standards within the banking industry may continue to diminish all sales, further reducing our borrowers' cash flows and weakening their ability to repay their debt obligations to us. As a result, we may experience a further negative material impact on our earnings and liquidity positions.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

Lending money is a substantial part of our business. However, every loan we make carries a certain risk of non-payment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
- the credit history of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for loan losses that we believe is a reasonable estimate of known and inherent losses within the loan portfolio. We make various assumptions and judgments about the collectibility of our loan portfolio. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in

interest rates, which may be beyond our control, and these losses may exceed current estimates. Growing loan portfolios are, by their nature, unseasoned. As a result, estimating loan loss allowances for growing portfolios is more difficult, and may be more susceptible to changes in estimates, and to losses exceeding estimates, than more seasoned portfolios. We cannot fully predict the amount or timing of losses or whether the loss allowance will be adequate in the future. Excessive loan losses and significant additions to our allowance for loan losses could have a material adverse impact on our financial condition and results of operations.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Difficult market conditions and economic trends have adversely affected our industry and our business.

Negative developments beginning in the latter half of 2007 in the sub-prime mortgage market and the securitization markets for such loans, together with other factors, have resulted in uncertainty in the financial markets in general and a related general economic downturn, which have continued into 2009. In addition, as a consequence of the recession that the United States now finds itself in, business activity across a wide range of industries face serious difficulties due to the lack of consumer spending and the extreme lack of liquidity in the global credit markets. Unemployment has also increased significantly. Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. In addition, the values of real estate collateral supporting many loans have declined and may continue to decline. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Competition among depository institutions for deposits has increased significantly. Financial institutions have experienced decreased access to deposits or borrowings.

The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. As a result of the foregoing factors, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations. This increased government action may increase our costs and limit our ability to pursue certain business opportunities. We also may be required to pay even higher Federal Deposit Insurance Corporation premiums than the recently increased level, because financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the deposit insurance fund and reduce its ratio of reserves to insured deposits.

We do not believe these difficult conditions are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market and economic conditions on us, our customers and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies and customer bankruptcies, as well as more restricted access to funds.

Our operations depend upon our continued ability to access brokered deposits and Federal Home Loan Bank advances.

Due to the high level of competition for deposits in our market, we utilize a sizable amount of certificates of deposit obtained through deposit brokers and advances from the Federal Home Loan Bank of Des Moines to help fund our asset base. Brokered deposits are marketed through national brokerage firms that solicit funds from their customers for deposit in banks, including our bank. Brokered deposits and Federal Home Loan Bank advances may generally be more sensitive to changes in interest rates and volatility in the capital markets than retail deposits attracted through our branch network, and our reliance on these sources of funds increases the sensitivity of our



portfolio to these external factors. At December 31, 2008, we had \$974.5 million in brokered deposits and \$120.5 million in Federal Home Loan Bank advances.

Bank regulators can restrict our access to these sources of funds in certain circumstances. For example, if the Bank's regulatory capital ratios declined below the "well capitalized" status, banking regulators would require the Bank to obtain their approval prior to obtaining or renewing brokered deposits. The regulators might not approve our acceptance of brokered deposits in amounts that we desire or at all. In addition, the availability of brokered deposits and the rates paid on these brokered deposits may be volatile as the balance of the supply of and the demand for brokered deposits changes. Market credit and liquidity concerns may also impact the availability and cost of brokered deposits. Similarly, Federal Home Loan Bank advances are only available to borrowers that meet certain conditions. If the Bank were to cease meeting these conditions, our access to Federal Home Loan Bank advances could be significantly reduced or eliminated.

We rely on these sources of funds because we believe that generating funds through brokered deposits and Federal Home Loan Bank advances in many instances decreases our cost of funds, relative to the cost of generating and retaining retail deposits through our branch network. If our access to brokered deposits or Federal Home Loan Bank advances were reduced or eliminated for whatever reason, the resulting decrease in our net interest income or limitation on our ability to fund additional loans would adversely affect our business, financial condition and results of operations.

Certain Federal Home Loan Banks, including Des Moines, have experienced lower earnings from time to time and paid out lower dividends to its members. Future problems at the Federal Home Loan Banks may impact the collateral necessary to secure borrowings and limit the borrowings extended to its member banks, as well as require additional capital contributions by its member banks. Should this occur, Great Southern's short term liquidity needs could be negatively impacted. Should Great Southern be restricted from using Federal Home Loan Bank advances due to weakness in the system or with the Federal Home Loan Bank of Des Moines, Great Southern may be forced to find alternative funding sources. These alternative funding sources may include the utilization of existing lines of credit with third party banks or the Federal Reserve Bank along with seeking other lines of credit, borrowing under repurchase agreement lines, increasing deposit rates to attract additional funds, accessing additional brokered deposits, or selling certain investment securities categorized as available-for-sale in order to maintain adequate levels of liquidity. At December 31, 2008, the Bank owned \$8.3 million of Federal Home Loan Bank of Des Moines stock, which paid an annualized dividend approximating 3.00% for the fourth quarter of 2008. The Federal Home Loan Bank of Des Moines may eliminate or reduce dividend payments at any time in the future in order for it to maintain or restore its retained earnings.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have grown our business successfully by focusing on our geographic market and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, consumer finance companies, insurance companies and brokerage firms. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources, name recognition and market presence that benefit them in attracting business. In addition, larger competitors (including certain national banks that have a significant presence in Great Southern's market area) may be able to price loans and deposits more aggressively than we do, and smaller and newer competitors may also be more aggressive in terms of pricing loan and deposit products than us in order to obtain a larger share of the market. As we have grown, we have become increasingly dependent on outside funding sources, including funds borrowed from the Federal Home Loan Bank and brokered deposits, where we face nationwide competition. Some of the financial

institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We also experience competition from a variety of institutions outside of the Company's market area. Some of these institutions conduct business primarily over the Internet and may thus be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Our business may be adversely affected by the highly regulated environment in which we operate, including the various capital adequacy guidelines we are required to meet.

We are subject to extensive federal and state legislation, regulation, examination and supervision. Recently enacted, proposed and future legislation and regulations have had, will continue to have, or may have a material adverse effect on our business and operations. Our success depends on our continued ability to maintain compliance with these regulations. Some of these regulations may increase our costs and thus place other financial institutions in stronger, more favorable competitive positions. We cannot predict what restrictions may be imposed upon us with future legislation. See "Item 1.-The Company -Government Supervision and Regulation" in this Annual Report on Form 10-K.

The Company and the Bank are required to meet certain regulatory capital adequacy guidelines and other regulatory requirements imposed by the FRB, the FDIC and the Missouri Division of Finance. If the Company or the Bank fails to meet these minimum capital guidelines and other regulatory requirements, our financial condition and results of operations could be materially and adversely affected and could compromise the status of the Company as a financial holding company. See "Item 1 -The Company -Government Supervision and Regulation" in this Annual Report on Form 10-K for descriptions of the capital guidelines applicable to the Company and the Bank.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support the growth of our business or to finance acquisitions, if any, or we may elect to raise additional capital for other reasons. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors. Should we be required by regulatory authorities or otherwise elect to raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or securities convertible into our common stock, which could dilute your ownership interest in the Company.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed or on terms acceptable to us, it may have a material adverse effect on our financial condition and results of operations.

Recent legislative and regulatory initiatives to address these difficult market and economic conditions may not stabilize the U.S. banking system.

The recently enacted Emergency Economic Stabilization Act of 2008 ("EESA") authorizes the United States Department of the Treasury, hereafter the Treasury Department, to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program ("TARP"). The purpose of the TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated \$250 billion towards the TARP Capital Purchase Program. Under the Capital

Purchase Program, the Treasury Department has purchased preferred equity securities from participating institutions including \$58.0 million of our Series A Preferred Stock (the "Series A Preferred Stock"). EESA also increased Federal Deposit Insurance Corporation ("FDIC") deposit insurance on most accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009. The EESA followed, and has been followed by, numerous actions by the Board of Governors of the Federal Reserve System, the U.S. Congress, the Treasury Department, the FDIC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007.

These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The Treasury Department also recently announced its Financial Stability Plan, to attack the current credit crisis, and its Homeowner Affordability and Stability Plan, which seeks to help up to nine million families restructure or refinance their mortgages to avoid foreclosure. In addition, on February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act. The purpose of these legislative and regulatory actions is to stabilize the U.S. banking system, improve the flow of credit and foster an economic recovery. The regulatory and legislative initiatives described above may not have their desired effects, however. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital, if needed or desired, and on our business, financial condition and results of operations.

We may be adversely affected by interest rate changes.

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our loan and mortgage-backed securities portfolios. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

We generally seek to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period. As such, Great Southern has adopted asset and liability management strategies to attempt to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources, including interest rate swaps, so that it may reasonably maintain its net interest income and net interest margin. However, interest rate fluctuations, the level and shape of the interest rate yield curve, maintaining excess liquidity levels, loan prepayments, loan production and deposit flows are constantly changing and influence the ability to maintain a neutral position. Accordingly, we may not be successful in maintaining a neutral position and, as a result, our net interest margin may be adversely impacted.

Our exposure to operational risks may adversely affect the Company.

Similar to other financial institutions, the Company is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, the risk that sensitive customer or Company data is compromised, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors. If any of these risks occur, it could result in material adverse consequences for the Company.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients.

As a service to our clients, we currently offer an Internet PC banking product. Use of this service involves the transmission of confidential information over public networks. We cannot be sure that advances in computer capabilities, new discoveries in the field of cryptography or other developments will not result in a compromise or breach in the commercially available encryption and authentication technology that we use to protect our clients' transaction data. If we were to experience such a breach or compromise, we could suffer losses and our operations could be adversely affected.

Our accounting policies and methods impact how we report our financial condition and results of operations. Application of these policies and methods may require management to make estimates about matters that are uncertain.

The Company's accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company's management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report its financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Company reporting materially different amounts than would have been reported under a different alternative. Note 1 "Summary of Significant Accounting Policies" in the "Notes to Consolidated Financial Statements" describes the Company's significant accounting policies. These accounting policies are critical to presenting the Company's financial condition and results of operations. They may require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions.

Changes in accounting standards could materially impact our consolidated financial statements.

The accounting standard setters, including the Financial Accounting Standards Board, Securities and Exchange Commission and other regulatory bodies, from time to time may change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

Our internal controls may be ineffective.

We regularly review and update our internal controls, disclosure controls and procedures and corporate governance policies and procedures. As a result, we may incur increased costs to maintain and improve our controls and

procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls or procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations or financial condition.



## Risks Relating to our Common Stock

Regulatory and contractual restrictions may limit or prevent us from paying dividends on the Series A Preferred Stock and our common stock; and the Series A Preferred Stock places no limitations on the amount of indebtedness we and our subsidiaries may incur in the future.

Great Southern Bancorp is an entity separate and distinct from its principal subsidiary, Great Southern Bank, and derives substantially all of its revenue in the form of dividends from that subsidiary. Accordingly, Great Southern Bancorp is and will be dependent upon dividends from the Bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on the Series A Preferred Stock and its common stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to Great Southern Bancorp, Great Southern Bancorp may not be able to pay dividends on its common stock or the Series A Preferred Stock. See Note 21 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2008. Also, Great Southern Bancorp's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. This includes claims under the liquidation account maintained for the benefit of certain eligible deposit account holders of the Bank established in connection with the Bank's conversion from the mutual to the stock form of ownership.

We are also subject to certain contractual restrictions that could prohibit us from declaring or paying dividends or making liquidation payments on its common stock or the Series A Preferred Stock.

If we defer payments of interest on our outstanding junior subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, the Series A Preferred Stock and our common stock.

As of December 31, 2008, we had outstanding \$30.9 million aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by certain of our subsidiaries that are statutory business trusts. We have also guaranteed those trust preferred securities. There are currently two separate series of these junior subordinated debt securities outstanding, each series having been issued under a separate indenture and with a separate guarantee. Each of these indentures, together with the related guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the Series A Preferred Stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture or any event, act or condition that with notice or lapse of time or both would constitute an event of default under the indenture; or (ii) we are in default with respect to payment of any obligations under the related guarantee; or (iii) we have deferred payment of interest on the junior subordinated debt securities outstanding under that indenture. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities of each series from time to time for up to five years.

Events of default under each indenture generally consist of our failure to pay interest on the junior subordinated debt securities outstanding under that indenture under certain circumstances, our failure to pay any principal of or premium on such junior subordinated debt securities when due, our failure to comply with certain covenants under the indenture, and certain events of bankruptcy, insolvency or liquidation relating to us or Great Southern Bank.

As a result of these provisions, if we were to elect to defer payments of interest on any series of junior subordinated debt securities, or if any of the other events described in clause (i) or (ii) of the first paragraph of this risk factor were to occur, we would be prohibited from declaring or paying any dividends on the Series A Preferred Stock and our common stock, from redeeming, repurchasing or otherwise acquiring any of the Series A Preferred Stock or our

common stock, and from making any payments to holders of the Series A Preferred Stock or our common stock in the event of our liquidation, which would likely have a material adverse effect on the market value of the Series A Preferred Stock and our common stock. Moreover, without notice to or consent from the holders of the Series A Preferred Stock or our common stock, we may issue additional series of junior subordinated debt securities in the future with terms similar to those of our existing junior subordinated debt securities or enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

The prices of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock when you want or at prices you find attractive.

We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this “Risk Factors” section:

- actual or anticipated quarterly fluctuations in our operating and financial results;
- developments related to investigations, proceedings or litigation that involve us;
  
- changes in financial estimates and recommendations by financial analysts;
- dispositions, acquisitions and financings;
  
- actions of our current stockholders, including sales of common stock by existing stockholders and our directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
  
- regulatory developments; and
- developments related to the financial services industry.

The market value of our common stock may also be affected by conditions affecting the financial markets in general, including price and trading fluctuations. These conditions may result in (i) volatility in the level of, and fluctuations in, the market prices of stocks generally and, in turn, our common stock and (ii) sales of substantial amounts of our common stock in the market, in each case that could be unrelated or disproportionate to changes in our operating performance. These broad market fluctuations may adversely affect the market value of our common stock. Our common stock also has a low average daily trading volume relative to many other stocks, which may limit an investor’s ability to quickly accumulate or divest themselves of large blocks of our stock. This can lead to significant price swings even when a relatively small number of shares are being traded.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the market price of our common stock or the Series A Preferred Stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Anti-takeover provisions could negatively impact our stockholders.

Provisions in our charter and bylaws, the corporate law of the State of Maryland and federal regulations could delay or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the market price of any class of our equity securities, including our common stock. These provisions include: a prohibition on voting shares of common stock beneficially owned in excess of 10% of total shares outstanding, supermajority voting requirements for certain business combinations with any person who beneficially owns 10% or more of our outstanding common stock; the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may

act on at stockholder meetings, a requirement that only directors may fill a vacancy in our Board of Directors, and supermajority voting requirements to remove any of our directors. Our charter also authorizes our Board of Directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. In addition, because we are a bank holding company, purchasers of 10% or more of our common stock may be required to obtain approvals under the Change in Bank Control Act of 1978, as amended, or the Bank Holding Company Act of 1956, as amended (and in certain cases such approvals may be required at a lesser percentage of ownership). Specifically, under regulations adopted by the Federal Reserve, (a) any other bank holding company may be required to obtain the approval of the Federal Reserve to acquire or retain 5% or more of our common stock and (b) any person other than a bank holding company may be required to obtain the approval of the Federal Reserve to acquire or retain 10% or more of our common stock.

These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors.

Holders of the Series A Preferred Stock have limited voting rights.

Until and unless we are in arrears on our dividend payments on the Series A Preferred Stock for six dividend periods, whether or not consecutive, the holders of the Series A Preferred Stock will have no voting rights except with respect to certain fundamental changes in the terms of the Series A Preferred Stock and certain other matters and except as may be required by Maryland law. If, however, dividends on the Series A Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the total number of positions on the Great Southern Bancorp Board of Directors will automatically increase by two and the holders of the Series A Preferred Stock, acting as a class with any other parity securities having similar voting rights, will have the right to elect two individuals to serve in the new director positions. This right and the terms of such directors will end when we have paid in full all accrued and unpaid dividends for all past dividend periods.

If we are unable to redeem the Series A Preferred Stock after five years, the cost of this capital to us will increase substantially.

If we are unable to redeem the Series A Preferred Stock prior to February 15, 2014, the cost of this capital to us will increase substantially on that date, from 5.0% per annum (approximately \$2.9 million annually) to 9.0% per annum (approximately \$5.2 million annually). Depending on our financial condition at the time, this increase in the annual dividend rate on the Series A Preferred Stock could have a material negative effect on our liquidity.

The securities purchase agreement between us and Treasury limits our ability to pay dividends on and repurchase our common stock.

The securities purchase agreement between us and Treasury provides that prior to the earlier of (i) December 5, 2011 and (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by us or transferred by Treasury to third parties, we may not, without the consent of Treasury, (a) increase the cash dividend on our common stock or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock other than the Series A Preferred Stock or trust preferred securities. In addition, we are unable to pay any dividends on our common stock unless we are current in our dividend payments on the Series A Preferred Stock. These restrictions, together with the potentially dilutive impact of the warrant described in the next risk factor, could have a negative effect on the value of our common stock. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future.

The Series A Preferred Stock impacts net income available to our common stockholders and earnings per common share, and the warrant we issued to Treasury may be dilutive to holders of our common stock.

The dividends declared on the Series A Preferred Stock will reduce the net income available to common stockholders and our earnings per common share. The Series A Preferred Stock will also receive preferential treatment in the event of liquidation, dissolution or winding up of Great Southern Bancorp. Additionally, the ownership interest of the existing holders of our common stock will be diluted to the extent the 10-year warrant we issued to Treasury in

conjunction with the sale to Treasury of the Series A Preferred Stock is exercised. The 909,091 shares of common stock underlying the warrant represent approximately 6.4% of the shares of our common stock outstanding as of December 31, 2008 (including the shares issuable upon exercise of the warrant in total shares outstanding). Although Treasury has agreed not to vote any of the shares of common stock it receives upon exercise of the warrant, a transferee of any portion of the warrant or of any shares of common stock acquired upon exercise of the warrant is not bound by this restriction.

The voting limitation provision in our charter could limit your voting rights as a holder of our common stock.

Our charter provides that any person or group who acquires beneficial ownership of our common stock in excess of 10% of the outstanding shares may not vote the excess shares. Accordingly, if you acquire beneficial ownership of more than 10% of the outstanding shares of our common stock, your voting rights with respect to the common stock will not be commensurate with your economic interest in our company.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES.

The following table sets forth certain information concerning the main corporate office and each branch office of the Company at December 31, 2008. The aggregate net book value of the Company's premises and equipment was \$30.0 million at December 31, 2008 and \$28.0 million at December 31, 2007. See also Note 5 and Note 14 of the Notes to Consolidated Financial Statements. Substantially all buildings owned are free of encumbrances or mortgages. In the opinion of management, the facilities are adequate and suitable for the needs of the Company.

Location	Year Opened	Owned or Leased	Lease Expiration (Including any Renewal Option)	
<b>CORPORATE HEADQUARTERS AND BANK:</b>				
1451 E. Battlefield	Springfield, Missouri	1976	Owned	N/A
<b>OPERATIONS CENTER AND BRANCH OFFICE:</b>				
218 S. Glenstone	Springfield, Missouri	2004	Owned	N/A
218A S. Glenstone	Springfield, Missouri	2004	Owned	N/A
<b>BRANCH OFFICES:</b>				
430 South Avenue	Springfield, Missouri	1983	Leased	2043
1607 W. Kearney	Springfield, Missouri	1976	Leased*	2022
1615 W. Sunshine	Springfield, Missouri	2001	Owned	N/A
2562 N. Glenstone	Springfield, Missouri	2003	Owned	N/A
1955 S. Campbell	Springfield, Missouri	1979	Leased*	2020
3961 S. Campbell	Springfield, Missouri	1998	Leased	2028
2609 A E. Sunshine	Springfield, Missouri	2001	Owned	N/A
2735 W. Chestnut	Springfield, Missouri	2002	Owned	N/A
1580 W. Battlefield	Springfield, Missouri	1985	Leased*	2017
723 N. Benton	Springfield, Missouri	1985	Owned	N/A
507 E. Kearney	Springfield, Missouri	2004	Owned	N/A
2945 W. Republic Road	Springfield, Missouri	2007	Owned	N/A
1500 S. Elliot	Aurora, Missouri	2003	Owned	N/A
102 N. Jefferson	Ava, Missouri	1982	Owned	N/A
110 W. Hensley	Branson Missouri	1982	Owned	N/A
1729 W. Highway 76	Branson, Missouri	1983	Owned	N/A
1510 State Highway 248	Branson, Missouri	2008	Owned	N/A
919 W. Dallas	Buffalo Missouri	1976	Owned	N/A
527 Ozark	Cabool, Missouri	1989	Leased	2026
398 E. State Highway 54	Camdenton, Missouri	2005	Owned	N/A
8736 N. State Highway 5	Camdenton, Missouri	2005	Owned	N/A
14411 State Highway 7	Climax Springs, Missouri	2005	Owned	N/A
1710 E. 32nd Street	Joplin, Missouri	1989	Leased*	2031
1232 S. Rangeline	Joplin, Missouri	1998	Leased	2018
2711 N. Rangeline(2)	Joplin, Missouri	2004	Owned	N/A
Highway 00 and 13	Kimberling City, Missouri	1984	Owned	N/A
528 S. Jefferson	Lebanon, Missouri	1978	Leased*	2028
300 S.W. Ward Street	Lee's Summit, Missouri	2006	Owned	N/A
714 S. Neosho Boulevard	Neosho, Missouri	1991	Owned	N/A
717 W. Mt. Vernon	Nixa, Missouri	1995	Owned	N/A

1391 N. Main Street	Nixa, Missouri	2003	Owned	N/A
---------------------	----------------	------	-------	-----



Location	Year Opened	Owned or Leased	Lease Expiration (Including any Renewal Option)
4571 Highway 54	1987	Owned	N/A
1701 W. Jackson	1997	Owned	N/A
1198 W. State Highway NN(1)	2003	Owned	N/A
1444 W. State Highway J(1)	2006	Owned	N/A
620 E. Harrison	2004	Owned	N/A
118 South Street	2003	Owned	N/A
323 E. Walnut	1978	Leased*	2011
1210 Parkway Shopping Center	1975	Owned	N/A

## LOAN PRODUCTION

## OFFICES:

14 Corporate Woods, Suite 500, 8717 W. 110 th Street	Overland Park, Kansas	2003	Leased	2009
5430 Pinnacle Point Dr, Suite 204	Rogers, Arkansas	2003	Leased	Monthly
Three City Place Dr., Suite 570	Creve Coeur, Missouri	2005	Leased	2010
1625 E. Primrose(3)	Springfield, Missouri	2008	Leased	Monthly
606 N. Main(4)	Laurie, Missouri	2009	Leased	2010

\* Building owned with land leased.

- (1) In 2003, the Company purchased land on West Highway NN for a second branch location in Ozark, Missouri. In 2004 and 2005, nearby properties became available on West Highway J and were purchased by the Company. The land on West Highway NN and one parcel on Highway J are currently being marketed for sale. The new facility on West Highway J is owned by the Company and was opened in 2006.
- (2) In 2004, the Company purchased land on North Rangeline for a possible third branch location in Joplin, Missouri. This land is currently being marketed for sale.
- (3) In 2008, the Company leased space in the office of a local realtor for the purpose of generating mortgage loans.
- (4) In 2009, the Company leased space for the purpose of generating mortgage loans.

In 2008, the Company completed the purchase of land for two future banking center locations. One of the properties is located in the Kansas City metropolitan area in Lee's Summit, Missouri and the other property is located in the St. Louis metropolitan area in Creve Coeur, Missouri. The Company expects to complete construction of banking center buildings at these two locations in 2009.

In February 2009, the Company purchased a building in Rogers, Arkansas and plans to relocate its loan production office and a travel office in this building. The building will also house other tenants who are unrelated to the Company. This building is in the same office complex where the Company's loan production office is currently located.

In addition, the travel division has offices in many of the above locations as well as several small offices in other locations including some of its larger corporate customers' headquarters.

The Bank maintains depositor and borrower customer files on an on-line basis, utilizing a telecommunications network, portions of which are leased. The book value of all data processing and computer equipment utilized by the Bank at December 31, 2008 was \$463,000 compared to \$550,000 at December 31, 2007. Management has a disaster recovery plan in place with respect to the data processing system as well as the Bank's operations as a whole.

The Bank maintains a network of Automated Teller Machines ("ATMs"). The Bank utilizes an external service for operation of the ATMs that also allows access to the various national ATM networks. A total of 181 ATMs are located at various branches and primarily convenience stores located throughout southwest and central Missouri. The book value of all ATMs utilized by the Bank at December 31, 2008 was \$193,000 compared to \$213,000 at December 31, 2007. The Bank will evaluate and relocate existing ATMs as needed, but has no plans in the near future to materially increase its investment in the ATM network.

ITEM 3. 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 or 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

Pursuant to General Instruction G(3) of Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K, the following list is included as an unnumbered item in Part I of this Form 10-K in lieu of being included in the Registrant's Definitive Proxy Statement.

The following information as to the business experience during the past five years is supplied with respect to executive officers of the Company and its subsidiaries who are not directors of the Company and its subsidiaries. There are no arrangements or understandings between the persons named and any other person pursuant to which such officers were selected. The executive officers are elected annually and serve at the discretion of their respective Boards of Directors.

Steven G. Mitchem. Mr. Mitchem, age 57, is Senior Vice President and Chief Lending Officer of the Bank. He joined the Bank in 1990 and is responsible for all lending activities of the Bank. Prior to joining the Bank, Mr. Mitchem was a Senior Bank Examiner for the Federal Deposit Insurance Corporation.

Rex A. Copeland. Mr. Copeland, age 44, is Treasurer of the Company and Senior Vice President and Chief Financial Officer of the Bank. He joined the Bank in 2000 and is responsible for the financial functions of the Company, including the internal and external financial reporting of the Company and its subsidiaries. Mr. Copeland is a Certified Public Accountant. Prior to joining the Bank, Mr. Copeland served other financial services companies in the areas of corporate accounting, internal audit and independent public accounting.

Douglas W. Marrs. Mr. Marrs, age 51, is Secretary of the Company and Secretary, Vice President - Operations of the Bank. He joined the Bank in 1996 and is responsible for all operations functions of the Bank. Prior to joining the Bank, Mr. Marrs was a bank officer in the areas of operations and data processing at a competing \$1 billion bank.

Linton J. Thomason. Mr. Thomason, age 52, is Vice President - Information Services of the Bank. He joined the Bank in 1997 and is responsible for information services for the Company and all of its subsidiaries and all treasury management sales/operations of the Bank. Prior to joining the Bank, Mr. Thomason was a bank officer in the areas of technology and data processing, operations and treasury management at a competing \$1 billion bank.

## PART II

Responses incorporated by reference into the items under Part II of this Form 10-K are done so pursuant to Rule 12b-23 and General Instruction G(2) for Form 10-K.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information. The Company's Common Stock is listed on The NASDAQ Global Select Market under the symbol "GSBC."

As of December 31, 2008 there were 13,380,969 total shares of common stock outstanding and approximately 2,500 shareholders of record.

High/Low Stock Price

	2008		2007		2006	
	High	Low	High	Low	High	Low
First Quarter	\$21.81	\$15.32	\$30.40	\$27.30	\$30.04	\$27.15
Second Quarter	15.95	7.73	30.09	25.96	31.00	25.05
Third Quarter	15.50	7.82	28.00	23.67	30.65	26.10
Fourth Quarter	13.15	7.03	26.45	21.10	32.14	26.58

The last sale price of the Company's Common Stock on December 31, 2008 was \$11.44.

Dividend Declarations

	December 31, 2008	December 31, 2007	December 31, 2006
First Quarter	\$.180	\$.160	\$.140
Second Quarter	.180	.170	.150
Third Quarter	.180	.170	.150
Fourth Quarter	.180	.180	.160

The Company's ability to pay dividends is substantially dependent on the dividend payments it receives from the Bank. For a description of the regulatory restrictions on the ability of the Bank to pay dividends to the Company, and the ability of the Company to pay dividends to its stockholders, see "Item 1. Business - Government Supervision and Regulation - Dividends."



## Issuer Purchases of Equity Securities

On November 15, 2006, the Company's Board of Directors authorized management to repurchase up to 700,000 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. However, our participation in the Treasury's Capital Purchase Program (CPP) precludes us from purchasing shares of the Company's stock until the earlier of December 5, 2011 or our repayment of the CPP funds. Information on the shares purchased during the fourth quarter of 2008 is shown below.

	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)
October 1, 2008 - October 31, 2008	---	\$ ---	---	396,562
November 1, 2008 - November 30, 2008	---	---	---	396,562
December 1, 2008 - December 31, 2008	---	---	---	396,562
	---	\$ ---	---	

(1) Amount represents the number of shares available to be repurchased under the November 2006 plan as of the last calendar day of the month shown.

On December 5, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program of the United States Department of the Treasury (the "Treasury Department"), the Company sold to the Treasury Department 58,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), having a liquidation preference amount of \$1,000 per share, for a purchase price of \$58.0 million in cash and (ii) issued to the Treasury Department a ten-year warrant to purchase 909,091 shares of the Company's common stock at an exercise price of \$9.57 per share.

The securities purchase agreement between us and Treasury provides that prior to the earlier of (i) December 5, 2011 and (ii) the date on which all of the shares of the Series A Preferred Stock have been redeemed by us or transferred by the Treasury Department to third parties, we may not, without the consent of the Treasury Department, (a) pay a cash dividend on our common stock of more than \$0.18 per share or (b) subject to limited exceptions, redeem, repurchase or otherwise acquire shares of our common stock or preferred stock, other than the Series A Preferred Stock, or trust preferred securities. In addition, under the terms of the Series A Preferred Stock, we may not pay dividends on our common stock unless we are current in our dividend payments on the Series A Preferred Stock. Dividends on the Series A Preferred Stock are payable quarterly at a rate of 5% per annum for the first five years and a rate of 9% per annum thereafter if not redeemed prior to that time.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial information and other financial data of the Company. The selected balance sheet and statement of operations data, insofar as they relate to the years ended December 31, 2008, 2007, 2006, 2005 and 2004, are derived from our consolidated financial statements, which have been audited by BKD, LLP. The amounts for 2004 are restated amounts, as described in the discussion following the table under "Restatement of Previously Issued Consolidated Financial Statements." See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Information." Results for past periods are not necessarily indicative of results that may be expected for any future period. All share and per share amounts have been adjusted for the two-for-one stock split in the form of a stock dividend declared in May 2004.

	December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Summary Statement of					
Condition Information:					
Assets	\$2,659,923	\$2,431,732	\$2,240,308	\$2,081,155	\$1,851,214
Loans receivable, net	1,721,691	1,820,111	1,674,618	1,514,170	1,334,508
Allowance for loan losses	29,163	25,459	26,258	24,549	23,489
Available-for-sale securities	647,678	425,028	344,192	369,316	355,104
Foreclosed assets held for sale, net	32,659	20,399	4,768	595	2,035
Deposits	1,908,028	1,763,146	1,703,804	1,550,253	1,298,723
Total borrowings	500,030	461,517	325,900	355,052	401,625
Stockholders' equity (retained earnings substantially restricted)	234,087	189,871	175,578	152,802	140,837
Common stockholders' equity	178,507	189,871	175,578	152,802	140,837
Average loans receivable	1,842,002	1,774,253	1,653,162	1,458,438	1,263,281
Average total assets	2,522,004	2,340,443	2,179,192	1,987,166	1,704,703
Average deposits	1,901,096	1,784,060	1,646,370	1,442,964	1,223,895
Average stockholders' equity	183,625	185,725	165,794	150,029	130,600
Number of deposit accounts	95,784	95,908	91,470	85,853	76,769
Number of full-service offices	39	38	37	35	31



Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

	2008	For the Year Ended December 31,			2004
		2007	2006	2005	
		(Dollars in thousands)			
<b>Summary Statement of Operations Information :</b>					
<b>Interest income:</b>					
Loans	\$ 119,829	\$ 142,719	\$ 133,094	\$ 98,129	\$ 74,162
Investment securities and other	24,985	21,152	16,987	16,366	12,897
	144,814	163,871	150,081	114,495	87,059
<b>Interest expense:</b>					
Deposits	60,876	76,232	65,733	42,269	28,952
Federal Home Loan Bank advances	5,001	6,964	8,138	7,873	6,091
Short-term borrowings and repurchase agreements	5,892	7,356	5,648	4,969	1,580
Subordinated debentures issued to capital trust	1,462	1,914	1,335	986	610
	73,231	92,466	80,854	56,097	37,233
Net interest income	71,583	71,405	69,227	58,398	49,826
Provision for loan losses	52,200	5,475	5,450	4,025	4,800
Net interest income after provision for loan losses	19,383	65,930	63,777	54,373	45,026
<b>Noninterest income:</b>					
Commissions	8,724	9,933	9,166	8,726	7,793
Service charges and ATM fees	15,352	15,153	14,611	13,309	12,726
Net realized gains on sales of loans	1,415	1,037	944	983	992
Net realized gains (losses) on sales of available-for-sale securities	44	13	(1)	85	(373)
Realized impairment of available-for-sale securities	(7,386)	(1,140)	---	(734)	---
Net gain (loss) on sale of fixed assets	191	48	167	30	403
Late charges and fees on loans	819	962	1,567	1,430	872
Change in interest rate swap fair value net of					
change in hedged deposit fair value	6,981	1,632	1,498	---	---
Change in interest rate swap fair value	---	---	---	(6,600)	1,136
Interest rate swap net settlements	---	---	---	3,408	8,881
Other income	2,004	1,781	1,680	922	879
	28,144	29,419	29,632	21,559	33,309
<b>Noninterest expense:</b>					
Salaries and employee benefits	31,081	30,161	28,285	25,355	22,007
Net occupancy expense	8,281	7,927	7,645	7,589	7,247
Postage	2,240	2,230	2,178	1,954	1,784
Insurance	2,223	1,473	876	883	761
Advertising	1,073	1,446	1,201	1,025	794
Office supplies and printing	820	879	931	903	811
Telephone	1,396	1,363	1,387	1,068	903
Legal, audit and other professional fees	1,739	1,247	1,127	1,410	1,309

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Expense on foreclosed assets	3,431	608	119	268	485
Write-off of trust preferred securities issuance costs	---	---	783	---	---
Other operating expenses	3,422	4,373	4,275	3,743	3,160
	55,706	51,707	48,807	44,198	39,261
Income (loss) before income taxes	(8,179)	43,642	44,602	31,734	39,074
Provision (credit) for income taxes	(3,751)	14,343	13,859	9,063	12,675
Net income (loss)	\$ (4,428)	\$ 29,299	\$ 30,743	\$ 22,671	\$ 26,399
Preferred stock dividends and discount accretion	\$ 242	\$ ---	\$ ---	\$ ---	\$ ---
Net income (loss) available to common shareholders	\$ (4,670)	\$ 29,299	\$ 30,743	\$ 22,671	\$ 26,399

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

	2008	At or For the Year Ended December 31,			2004
		2007	2006	2005	
		(Dollars in thousands, except per share data)			
<b>Per Common Share Data:</b>					
Basic earnings per common share	\$ (0.35)	\$ 2.16	\$ 2.24	\$ 1.65	\$ 1.93
Diluted earnings per common share	(0.35)	2.15	2.22	1.63	1.89
Cash dividends declared	0.72	0.68	0.60	0.52	0.44
Book value per common share	13.34	14.17	12.84	11.13	10.28
Average shares outstanding	13,381	13,566	13,697	13,713	13,702
Year-end actual shares outstanding	13,381	13,400	13,677	13,723	13,699
Year-end fully diluted shares outstanding	13,381	13,654	13,825	13,922	13,995
<b>Earnings Performance Ratios:</b>					
Return on average assets(1)	(0.18)%	1.25%	1.41%	1.14%	1.55%
Return on average stockholders' equity(2)	(2.47)	15.78	18.54	15.11	20.21
Non-interest income to average total assets	1.12	1.25	1.36	1.08	1.95
Non-interest expense to average total assets	2.07	2.18	2.23	2.21	2.27
Average interest rate spread(3)	2.74	2.71	2.83	2.73	2.81
Year-end interest rate spread	3.02	3.00	2.95	3.05	2.63
Net interest margin(4)	3.01	3.24	3.39	3.13	3.10
Efficiency ratio(5)	55.86	51.28	49.37	55.28	47.23
Net overhead ratio(6)	1.09	0.95	0.88	1.14	0.35
Common dividend pay-out ratio	N/A	31.63	27.03	31.90	23.28
<b>Asset Quality Ratios:</b>					
Allowance for loan losses/year-end loans	1.66%	1.38%	1.54%	1.59%	1.73%
Non-performing assets/year-end loans and foreclosed assets	3.69	2.99	1.46	1.09	0.48
Allowance for loan losses/non-performing loans	87.84	71.77	129.71	151.44	524.43
Net charge-offs/average loans	2.63	0.35	0.23	0.20	0.17
Gross non-performing assets/year end assets	2.48	2.30	1.12	0.81	0.35
Non-performing loans/year-end loans	1.90	1.92	1.19	1.05	0.33
<b>Balance Sheet Ratios:</b>					
Loans to deposits	90.23%	103.23%	98.29%	97.67%	102.76%
Average interest-earning assets as a percentage of average interest-bearing liabilities	108.98	112.71	114.26	113.05	112.56
<b>Capital Ratios:</b>					
Average common stockholders' equity to average assets	7.1%	7.9%	7.6%	7.6%	7.7%

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Year-end tangible common stockholders' equity to assets	6.7	7.7	7.8	7.2	7.6
Great Southern Bancorp, Inc.:					
Tier 1 risk-based capital ratio	13.8	10.6	10.7	10.2	10.8
Total risk-based capital ratio	15.1	11.9	11.9	11.4	12.0
Tier 1 leverage ratio	10.1	9.1	9.2	8.4	8.5
Great Southern Bank:					
Tier 1 risk-based capital ratio	10.7	10.4	10.2	10.1	10.7
Total risk-based capital ratio	11.9	11.7	11.5	11.3	11.9
Tier 1 leverage ratio	7.8	9.0	8.9	8.3	8.5
Ratio of Earnings to Fixed Charges: (7)					
Including deposit interest	0.89x	1.47x	1.55x	1.57x	2.05x
Excluding deposit interest	0.34x	3.69x	3.95x	3.29x	5.72x

- 
- (1) Net income divided by average total assets.
- (2) Net income divided by average stockholders' equity.
- (3) Yield on average interest-earning assets less rate on average interest-bearing liabilities.
- (4) Net interest income divided by average interest-earning assets.
- (5) Non-interest expense divided by the sum of net interest income plus non-interest income.
- (6) Non-interest expense less non-interest income divided by average total assets.
- (7) In computing the ratio of earnings to fixed charges: (a) earnings have been based on income before income taxes and fixed charges, and (b) fixed charges consist of interest and amortization of debt discount and expense including amounts capitalized and the estimated interest portion of rents.

## RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

On January 23, 2006, the Company announced that it would restate certain of its historical financial statements for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, and years ended December 31, 2004, 2003, 2002, and 2001. The restatement of this financial information relates to the correction of prior accounting errors relating to certain interest rate swaps associated with brokered certificates of deposit (CDs).

The Company has entered into interest rate swap agreements to hedge the interest rate risk inherent in certain of its CDs. From the inception of the hedging program in 2000, the Company has applied a method of fair value hedge accounting under Statement of Financial Accounting Standards (SFAS) 133 to account for the CD swap transactions that allowed the Company to assume the effectiveness of such transactions (the so-called "short-cut" method). The Company concluded that the CD swap transactions did not qualify for this method in prior periods because the method to pay the related CD broker placement fee was determined, in retrospect, to have caused the swap to not have a fair value of zero at inception (which is required under SFAS 133 to qualify for the "short-cut" method). Although the impact of applying the alternative "long-haul" method of documentation using SFAS 133 and the results under the "short-cut" method are believed to result in no significant difference in the hedge effectiveness of the majority of these swaps, and management believes these interest rate swaps have been effective as economic hedges, hedge accounting under SFAS 133 is not allowed for the affected periods because the proper hedge documentation was not in place at the inception of the hedge.

The Company is charged a fee in connection with its acquisition of brokered CDs. For those CDs that were part of the Company's accounting restatement for interest rate swaps in 2005, this fee was not paid separately by the Company to the CD broker, but rather was built in as part of the overall rate on the interest rate swap. In connection with the restatement, the Company determined that this broker fee should be accounted for separately as a prepaid fee at the origination of the brokered CD and amortized into interest expense over the maturity period of the brokered CD. If the Company calls the brokered CD (at par) prior to maturity, the remaining unamortized broker fee is expensed at that time. The remaining unamortized prepaid broker fees related to these brokered CDs (that were subject to the restatement) at December 31, 2008 and 2007, were \$393,000 and \$3.5 million, respectively. After December 31, 2005, and for any brokered CDs that do not have a corresponding interest rate swap, the broker fee may be paid separately by the Company to the CD broker, in which case the fee would be amortized into interest expense over the maturity period of the brokered CD. In any instances where the fee was not paid separately by the Company to the CD broker, but rather was built in as part of the overall rate on the interest rate swap, the Company must include this in its assessment of the transaction's qualification for hedge accounting.

As a result, the financial statements for all affected periods through December 31, 2005, reflect a cumulative charge of approximately \$3.4 million (net of income taxes) to account for the interest rate swaps referred to above as if hedge accounting was never applicable to them. In addition, the fiscal year 2005 financial statements include a charge of approximately \$5.1 million (net of income taxes), to reflect the same treatment.

Fair value hedge accounting allows a company to record the change in fair value of the hedged item (in this case, brokered CDs) as an adjustment to income by offsetting the fair value adjustment on the related interest rate swap. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that were made to the brokered CDs. Therefore, while the interest rate swap is recorded on the balance sheet at its fair value, the related hedged items, the brokered CDs, are required to be carried at par. Additionally, the net cash settlement payments received during each of the above periods for these interest rate swaps were reclassified from interest expense on brokered CDs to noninterest income.

The effects of the change in accounting for certain interest rate swaps on the consolidated balance sheet as of, and income statement for the periods indicated previously, are detailed in the Company's December 31, 2005 Annual Report on Form 10-K.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### Forward-looking Statements

When used in this Annual Report 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 risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Company's ability to access cost-effective funding, fluctuations in real estate values and both residential and commercial real estate market conditions, 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 considers 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 once loans 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. The Bank's latest annual regulatory examination was completed in October 2008.

Additional discussion of the allowance for loan losses is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, under the section titled "Item 1. Business - 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 significantly.

In addition, the Company considers that the determination of the valuations of foreclosed assets held for sale involves a high degree of judgment and complexity. The carrying value of foreclosed assets reflects

management's best estimate of the amount to be realized from the sales of the assets. While the estimate is generally based on a valuation by an independent appraiser or recent sales of similar properties, the amount that the Company realizes from the sales of the assets could differ materially in the near term from the carrying value reflected in these financial statements, resulting in losses that could adversely impact earnings in future periods.

#### Goodwill and Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are subject to an impairment test at least annually and more frequently if circumstances indicate their value may not be recoverable. Goodwill is tested for impairment using a process that estimates the fair value of each of the Company's reporting units compared with its carrying value. The Company defines reporting units as a level below each of its operating segments for which there are discrete financial information that is regularly reviewed. As of December 31, 2008, the Company has two reporting units to which goodwill has been allocated – the Bank and the Travel division (which is a division of a subsidiary of the Bank). If the fair value of a reporting unit exceeds its carrying value, then no impairment is recorded. If the carrying value amount exceeds the fair value of a reporting unit, further testing is completed comparing the implied fair value of the reporting unit's goodwill to its carrying value to measure the amount of impairment. Intangible assets that are not amortized will be tested for impairment at least annually by comparing the fair values to those assets to their carrying values. At December 31, 2008, goodwill consisted of \$379,000 at the Bank reporting unit and \$875,000 at the Travel reporting unit. Other identifiable intangible assets that are subject to amortization are amortized on a straight-line basis over periods ranging from three to seven years. At December 31, 2008, the amortizable intangible assets consisted of core deposit intangibles of \$314,000 at the Bank reporting unit and \$119,000 of non-compete agreements at the Travel reporting unit. These amortizable intangible assets are reviewed for impairment if circumstances indicate their value may not be recoverable based on a comparison of fair value. See Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements included in Item 8 for additional information.

For purposes of testing goodwill for impairment, the Company used a market approach to value its reporting units. The market approach applies a market multiple, based on observed purchase transactions for each reporting unit, to the metrics appropriate for the valuation of the operating unit. Significant judgment is applied when goodwill is assessed for impairment. This judgment may include developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables and incorporating general economic and market conditions.

Based on the Company's goodwill impairment testing, management does not believe any of its goodwill or other intangible assets are impaired as of December 31, 2008. While the Company believes no impairment existed at December 31, 2008, different conditions or assumptions used to measure fair value of reporting units, or changes in cash flows or profitability, if significantly negative or unfavorable, could have a material adverse effect on the outcome of the Company's impairment evaluation in the future.

## Current Economic Conditions

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

## 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 year ended December 31, 2008, Great Southern's net loans decreased \$96.4 million, or 5.3%, from \$1.81 billion at December 31, 2007, to \$1.72 billion at December 31, 2008. 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. Based upon the current lending environment and economic conditions, the Company does not expect to grow the overall loan portfolio significantly, if at all, at this time. However, some loan categories have experienced increases. The main loan areas experiencing increases in 2008 were commercial real estate loans, one- to four-family and multifamily real estate loans and consumer loans, partially offset by lower balances in construction loans and commercial business loans. In the year ended December 31, 2008, outstanding residential and commercial construction loan balances decreased \$142.1 million, to \$543.9 million at December 31, 2008. In addition, the undisbursed portion of construction and land development loans decreased \$180.7 million from \$254.6 million at December 31, 2007, to \$73.9 million at December 31, 2008. The Company's strategy continues to be focused on maintaining credit risk and interest rate risk at appropriate levels given the current credit and economic environments.

In addition, the level of non-performing loans and foreclosed assets may affect our net interest income and net income. While we have not had an overall high level of charge-offs on our non-performing loans prior to 2008, we do not accrue interest income on these loans and do not recognize interest income until the loan is repaid or interest payments have been made for a period of time sufficient to provide evidence of performance on the loans. Generally, the higher the level of non-performing assets, the greater the negative impact on interest income and net income. We expect loan loss provision, non-performing assets and foreclosed assets to remain elevated. In addition, expenses related to the credit resolution process should also remain elevated.

In the year ended December 31, 2008, Great Southern's available-for-sale securities increased \$222.7 million, or 52.4%, from \$425 million at December 31, 2007, to \$648 million at December 31, 2008. The Company's mix of securities changed in 2008 primarily in two categories. U.S. Government agency debt securities decreased \$91.0

million primarily due to maturing short-term securities and longer term securities that were called at par by the issuing agency. The Company elected to replace these securities with U.S. Government agency mortgage-backed securities, which increased \$302.1 million, to cover pledging requirements for public funds and customer repurchase agreements. Most of these agency mortgage-backed securities purchased in 2008 have interest rates that are fixed for a period of three to ten years and then adjust annually. Securities which provided the Company an acceptable yield were also purchased in 2008 to utilize the excess liquidity from loan repayments and the issuance of brokered deposits.

In addition, Great Southern had cash and cash equivalents of \$168 million at December 31, 2008 compared to \$81 million at December 31, 2007. Subsequent to December 31, 2008, additional customer deposits have been placed with Great Southern, resulting in cash and cash equivalents of \$337 million at March 5, 2009. The Company could elect to utilize these funds by repaying some of its brokered deposits or purchasing additional investment securities, or it may maintain its cash equivalents.

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, along with Federal Home Loan Bank (FHLBank) advances and other borrowings, to meet loan demand. In the year ended December 31, 2008, total deposit balances increased \$144.9 million, or 8.2%. However, the mix of deposits continued to shift from checking deposits to certificates of deposit, primarily brokered CDs. Interest-bearing transaction accounts decreased \$104.6 million while non-interest-bearing checking accounts decreased \$27.5 million. Retail certificates of deposit decreased \$34.6 million. 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. In 2007 and 2008, our non-interest-bearing checking account balances have decreased, primarily as a result of lower balances being kept in correspondent bank customers' accounts. These lower balances are due to the effects of the correspondent customers clearing checks through other avenues using electronic presentment, thus requiring lower compensating balances. Subsequent to December 31, 2008, correspondent balances have begun to increase again. A significant amount of the reduction in interest-bearing checking balances was the result of customers moving funds into customer reverse repurchase agreements.

Total brokered deposits were \$974.5 million at December 31, 2008, up from \$674.6 million at December 31, 2007. Included in these totals at December 31, 2008 and December 31, 2007, were Great Southern Bank customer deposits totaling \$168.3 million and \$88.8 million, respectively, that are part of the CDARS program which allows bank customers to maintain balances in an insured manner that would otherwise exceed the FDIC deposit insurance limit. The Company decided to increase the amount of longer-term brokered certificates of deposit in 2008 to provide liquidity for operations and to maintain in reserve its available secured funding lines with the Federal Home Loan Bank (FHLBank) and the Federal Reserve Bank. In 2008, the Company issued approximately \$359 million of new brokered certificates which are fixed rate certificates with maturity terms of generally two to four years, which the Company (at its discretion) may redeem at par generally after six months. As market interest rates on these types of deposits have decreased in recent months, the Company has begun to redeem some of these deposits in 2009 in order to lock in cheaper funding rates or reduce excess cash balances. In addition in 2008, the Company issued approximately \$137 million of new brokered certificates, which are fixed rate certificates with maturity terms of generally two to four years, which the Company may not redeem prior to maturity. There are no interest rate swaps associated with these brokered certificates.

These funding changes contributed to decreases in our net interest income and net interest margin. These longer-term certificates carry an interest rate that is approximately 150 basis points higher than the interest rate that the Company would have paid if it instead utilized short-term advances from the FHLBank. The Company decided the higher rate was justified by the longer term and the ability to keep committed funding lines available. The net interest margin was also negatively impacted as the Company originated some of the new certificates in advance of the anticipated terminations of the existing certificates, thereby causing the Company to have excess funds for a period of time. These excess funds were invested in short-term cash equivalents at rates that at times caused the Company to earn a negative spread. Partially offsetting the increase in brokered CDs, several existing brokered certificates were redeemed by the Company in 2008 as the related interest rate swaps were terminated by the swap counterparties. These redeemed certificates had effective interest rates through the interest rate swaps of approximately 90-day LIBOR. Interest rate swap notional amounts have decreased from \$419 million at December 31, 2007, to \$12 million at December 31, 2008.

Our ability to fund growth in future periods may also be dependent on our ability to continue to access brokered deposits and FHLBank advances. In times when our loan demand has outpaced our generation of new deposits, we have utilized brokered deposits and FHLBank advances to fund these loans. These funding sources have been attractive to us because we can create variable rate funding, if desired, 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 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.

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 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 "Item 7A. Quantitative and Qualitative Disclosures About Market Risk").

Ongoing changes in the level and shape of the interest rate yield curve pose challenges for interest rate risk management. Beginning in the second half of 2004 and through September 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 September 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. On September 18, 2007, the FRB decreased the Federal Funds rate by 50 basis points and many market interest rates began to fall in the following weeks. In the months following September 2007, the FRB has reduced the Federal Funds rate by an additional 450 basis points. The Federal Funds rate now stands at 0.25%. However, funding costs for most financial services companies have not declined in tandem with these reductions in the Federal Funds rate. Competition for deposits, the desire for longer term funding, elevated LIBOR interest rates and wide credit spreads have kept borrowing costs relatively high in the current environment.

Another factor that continues to negatively impact net interest income is the elevated level of LIBOR interest rates compared to Federal Funds rates as a result of credit and liquidity concerns in financial markets. These LIBOR interest rates were elevated approximately 50-75 basis points compared to historical averages versus the stated Federal Funds rate for much of 2008. In the latter portion of December 2008 and so far into 2009, LIBOR rates have decreased from their higher levels in comparison to the stated Federal Funds rate. While these LIBOR interest rates are still elevated compared to historical averages in relation to Federal Funds, they have decreased along with recent decreases in the Federal Funds rate. The Company has reduced the amount and percentage of interest rate swaps and other borrowings that are indexed to LIBOR. The Company does not find LIBOR-based interest rate swaps to be attractive at this time. Funding costs related to local market deposits and brokered certificates of deposit have also been elevated due to competition by issuers seeking to generate significant funding.

The FRB most recently cut interest rates on December 16, 2008. Great Southern has a significant portfolio of loans which are tied to a "prime rate" of interest. Some of these loans are tied to some national index of "prime," while most are indexed to "Great Southern prime." The Company has elected to leave its "Great Southern prime rate" of interest at 5.00% in light of the current highly competitive funding environment for deposits, including LIBOR rates that have been elevated. This does not affect a large number of customers as a majority of the loans indexed to "Great Southern prime" are already at interest rate floors which are provided for in individual loan documents. But for the interest rate floors, a rate cut by the FRB generally would have an anticipated immediate negative impact on the Company's net interest income due to the large total balance of loans which generally adjust immediately as the Federal Funds rate adjusts. Because the Federal Funds rate is already very low, there may also be a negative impact on the Company's net interest income due to the Company's inability to lower its funding costs in the current environment. Usually any negative impact is expected to be offset over the following 60- to 120-day period, and subsequently is expected to have a positive impact, as the Company's interest rates on deposits, borrowings and interest rate swaps would normally also go down as a result of a reduction in interest rates by the FRB, assuming normal credit, liquidity and competitive loan and deposit pricing pressures. Any anticipated positive impact will likely be reduced by the change in the funding mix noted above, as well as retail deposit competition in the Company's market areas.

In addition, Great Southern's net interest margin has been negatively affected by certain characteristics of some of its loans, deposit mix, loan and deposit pricing by competitors, and timing of interest rate changes by the FRB as compared to interest rate changes in the financial markets. For the twelve months ended December 31, 2008, and 2007, interest income was reduced \$1.2 million and \$1.6 million, respectively, due to the reversal of accrued interest

on loans which were added to non-performing status during the period. Partially offsetting this, the Company collected interest which was previously charged off in the amount of \$227,000 and \$183,000 in the twelve months ended December 31, 2008, and 2007, respectively, due to work-out efforts on non-performing assets. On a combined basis, this reduced net interest income and net interest margin. In addition, net interest income and net interest margin were negatively impacted by the effects of the accounting entries recorded for certain interest rate swaps (amortization of deposit broker origination fees). This amortization expense reduced net interest income by \$3.1 million and \$1.2 million in 2008 and 2007, respectively.



The negative impact of declining loan interest rates has been partially mitigated by the positive effects of the Company's loans which have interest rate floors. At December 31, 2008, the Company had a portfolio of prime-based loans totaling approximately \$969 million with rates that change immediately with changes to the prime rate of interest. Of this total, \$779 million also had interest rate floors. These floors were at varying rates, with \$182 million of these loans having floor rates of 7.0% or greater and another \$548 million of these loans having floor rates between 5.0% and 7.0%. At December 31, 2008, \$739 million of these loans were at their floor rates. During 2003 and 2004, the Company's loan portfolio had loans with rate floors that were much lower. However, since market interest rates were also much lower at that time, these loan rate floors went into effect and established a loan rate which was higher than the contractual rate would have otherwise been. This contributed to a loan yield for the entire portfolio which was approximately 139 and 55 basis points higher than the "prime rate of interest" at December 31, 2003 and 2004, respectively. As interest rates rose in the second half of 2004 and throughout 2005 and 2006, these interest rate floors were exceeded and the loans reverted back to their normal contractual interest rate terms. At December 31, 2005, the loan yield for the portfolio was approximately 8 basis points higher than the "prime rate of interest," resulting in lower interest rate margins. At December 31, 2006, the loan portfolio yield was approximately 5 basis points lower than the "prime rate of interest." During the latter portion of 2007 and throughout 2008, as the "prime rate of interest" has gone down, the Company's loan portfolio again has had loans with rate floors that went into effect and established a loan rate which was higher than the contractual rate would have otherwise been. This contributed to a loan yield for the entire portfolio which was approximately 33 basis points higher than the "prime rate of interest" at December 31, 2007. At December 31, 2008, the loan yield for the portfolio had increased to a level that was approximately 310 basis points higher than the national "prime rate of interest." While interest rate floors have had an overall positive effect on the Company's results, they do subject the Company to the risk that borrowers will elect to refinance their loans with other lenders.

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 interest rate hedging activities. Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, expenses related to foreclosed assets, postage, insurance, advertising and public relations, telephone, professional fees, office expenses and other general operating expenses.

Non-interest income for 2008 decreased primarily as a result of the impairment write-down in value of the Company's investments in available-for-sale Fannie Mae and Freddie Mac perpetual preferred stock and certain other available-for-sale equity investments and lower commission revenue from the Company's travel and investment divisions, partially offset by an increase in income related to the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits. The impairment write-down totaled \$7.4 million on a pre-tax basis (including \$5.6 million related to Fannie Mae and Freddie Mac preferred stock, which was discussed in previous filings). These equity investments have experienced significant fair value declines over the past year. It is unclear if or when the values of these investment securities will improve, or whether such values will deteriorate further. Based on these developments, the Company recorded an other-than-temporary impairment. The Company continues to hold these securities in the available-for-sale category. The Company also recorded an impairment write-down of \$1.1 million on a pre-tax basis in 2007.

The change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits resulted in an increase in non-interest income of \$7.0 million in 2008, and an increase of \$1.6 million in 2007. Income of this magnitude related to the change in the fair value of certain interest rate swaps and the related change in the fair value of hedged deposits should not be expected in future periods. This income is part of a 2005 accounting restatement in which approximately \$3.4 million (net of taxes) was charged against retained earnings in 2005. This charge has been (and continues to be) recovered in subsequent periods as interest rate swaps matured or were

terminated by the swap counterparty.

Total non-interest expense increased in 2008 compared to 2007 due to expenses related to problem loans and foreclosed assets, expenses related to FDIC insurance premiums and the continued growth of the Company. Due to the increase in the level of foreclosed assets, foreclosure-related expenses increased \$3.3 million in 2008 compared to 2007. In 2007, the Federal Deposit Insurance Corporation (FDIC) began to once again assess insurance premiums on insured institutions. Under the new pricing system, institutions in all risk categories, even the best rated, are charged an FDIC premium. Great Southern received a deposit insurance credit as a result of premiums previously paid. The Company's credit offset assessed premiums for the first half of 2007, but premiums were owed by the Company in the latter half of 2007 and into 2008. The Company incurred additional deposit insurance

expense of \$827,000 in 2008 compared to 2007. The Company expects significantly increased expense in 2009 as a result of the FDIC increasing regular insurance premiums for all banks. In addition, the FDIC has proposed a special assessment to be levied against all banks in 2009 -- see Item 1. "Business, Government Supervision and Regulations, Insurance of Accounts and Regulation by the FDIC."

In addition to the expense increases noted above, the Company's increase in non-interest expense in the year ended December 31, 2008, compared to 2007, related to the continued growth of the Company. Late in the first quarter of 2007, Great Southern completed its acquisition of a travel agency in St. Louis. In addition, since June 2007, the Company opened banking centers in Springfield, Mo. and Branson, Mo.

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.

#### Business Initiatives

The Company is expanding its retail banking center network in the St. Louis and Kansas City metropolitan regions. This is part of the Company's overall long-term plan to open two to three banking centers per year as market conditions warrant. The Company's first retail banking center in the St. Louis market is expected to open in April 2009. Located in Creve Coeur, Mo., the full-service banking center will complement a loan production office and a Great Southern Travel office already in operation in this market. Construction will be underway soon on a second banking center in the Lee's Summit, Mo., market, a suburb of Kansas City. The banking center should be completed in late 2009 and will enhance access and service to Lee's Summit-area customers. Great Southern opened its first Lee's Summit retail location in 2006.

Great Southern is participating in the FDIC's Temporary Liquidity Guarantee Program (TLGP), which consists of two basic components: (1) the Transaction Account Guarantee Program and (2) the Debt Guarantee Program. Through the Transaction Account Guarantee Program, Great Southern is purchasing additional FDIC insurance coverage for its customers. Great Southern customers with noninterest-bearing deposit accounts, Lawyer's Trust Accounts, and NOW accounts paying interest at a rate less than 0.50 percent will be fully insured by the FDIC regardless of the account balance, through December 31, 2009. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules, which was recently increased from \$100,000 to \$250,000 per depositor.

The Debt Guarantee Program, which guarantees newly issued senior unsecured debt of banks and thrifts, could be utilized by the Company in the future. At present, the Company has no senior unsecured debt outstanding.

#### 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.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations. SFAS No. 141(revised) retains the fundamental requirements in Statement 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. SFAS No. 141 (revised) applies to business

combinations occurring after January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51. SFAS No. 160 requires that a noncontrolling interest in a subsidiary be accounted for as equity in the consolidated statement of financial position and that net income include the amounts for both the parent and the noncontrolling interest, with a separate amount presented in the income statement for the noncontrolling interest share of net income. SFAS No. 160 also expands the disclosure requirements and provides guidance on how to account for changes in the ownership interest of a subsidiary. SFAS No. 160 is effective for the Company on January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company's financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position No. 157-2. The staff position delays the effective date of SFAS No. 157, Fair Value Measurements (which was adopted by the Company on January 1, 2008) for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay was intended to allow additional time to consider the effect of various implementation issues with regard to the application of SFAS No. 157. This staff position deferred the effective date of SFAS No. 157 to January 1, 2009, for items within the scope of the staff position and is not expected to have a material effect on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities intended to improve the transparency of financial reporting. Under SFAS No. 161, entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 effective January 1, 2009. The adoption of this standard is not anticipated to have a material effect on the Company's financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (the GAAP hierarchy). The FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this Statement to achieve that result. SFAS No. 162 is effective sixty days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The adoption of this standard is not anticipated to have a material effect on the Company's financial position or results of operations.

In June 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Disclosure of Certain Loss Contingencies—an amendment of FASB Statements No. 5 and 141(R). The purpose of the proposed statement is intended to improve the quality of financial reporting by expanding disclosures required about certain loss contingencies. Investors and other users of financial information have expressed concerns that current disclosures required in SFAS No. 5, Accounting for Contingencies, do not provide sufficient information in a timely manner to assist users of financial statements in assessing the likelihood, timing, and amount of future cash flows associated with loss contingencies. If approved as written, this proposed Statement would expand disclosures about certain loss contingencies in the scope of SFAS No. 5 or SFAS No. 141 (revised 2007), Business Combinations, and would be effective for fiscal years ending after December 15, 2008, and interim and annual periods in subsequent fiscal years. The FASB continues to deliberate this proposed standard at this time.

In June 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities—an amendment of FASB Statement No. 133. The purpose of the proposed Statement is intended to simplify hedge accounting resulting in increased comparability of financial results for entities that apply hedge accounting. Specifically, the proposed statement would eliminate the multiple methods of hedge accounting currently being used for the same transaction. It also would require an entity to designate all risks as the hedged risk (with certain exceptions) in the hedged item or transaction, thus better reflecting the economics of such items and transactions in the financial statements. Additional objectives of the proposed Statement are to: simplify accounting for hedging activities; improve the financial reporting of hedging activities to make the accounting model and associated disclosures more useful and easier to understand for users of financial statements;

resolve major practice issues related to hedge accounting that have arisen under Statement 133, Accounting for Derivative Instruments and Hedging Activities; and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. If approved as written, the proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years. The FASB continues to deliberate this proposed standard at this time.

In August 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Earnings per Share—an amendment of FASB Statement No. 128. The FASB is issuing this proposed Statement as part of a joint project with the International Accounting Standards Board (IASB). The FASB and the IASB undertook that project to eliminate differences between FASB Statement No. 128, Earnings per Share, and IAS 33, Earnings per Share, in ways that also would clarify and simplify the earnings per share (EPS) computation. This proposed Statement proposes amendments to Statement 128 that would improve the comparability of EPS because the denominator used to compute EPS under Statement 128 would be the same as the denominator used to compute EPS under IAS 33, with limited exceptions. The FASB continues to deliberate this proposed standard at this time.

In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of an Asset When the Market for That Asset Is Not Active. FSP 157-3 clarifies how Statement of Financial Accounting Standards (SFAS) No. 157 “Fair Value Measurements” (SFAS 157) should be applied when valuing securities in markets that are not active and illustrates how an entity would determine fair value in this circumstance. The FSP states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management’s judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. The adoption of FSP 157-3, effective upon issuance, did not impact the Company’s financial position or results of operations.

In October 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Subsequent Events. The objective of this proposed Statement is to establish general standards of accounting for and disclosure of events that occur subsequent to the balance sheet date but before financial statements are issued or are available to be issued. In particular, this proposed Statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity would evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity would recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity would make about events or transactions that occurred after the balance sheet date. The FASB continues to deliberate this proposed standard at this time.

In December 2008, the FASB issued FASB Staff Position No. 140-4 and FIN 46(R)-8, Disclosure by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. This FSP amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require public entities to provide additional disclosures about transfers of financial assets and amends FIN 46(R), Consolidation of Variable Interest Entities, to require public entities to provide additional disclosures about their involvement in variable interest entities and certain special purpose entities. This FSP was effective for the first reporting period ending after December 15, 2008. The Company has not engaged in these types of transfers of financial assets; therefore, no additional disclosures were required.

In January 2009, the FASB issued proposed FASB Staff Position No. 107-b and APB 28-a, Interim Disclosures about Fair Value of Financial Instruments. This proposed FSP would amend FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also would amend APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. This FSP, if adopted as it is currently written, is effective for interim and annual reporting periods ending after March 15, 2009.

In February 2009, the FASB decided to reexpose proposed FASB Staff Position No. 157-c, Measuring Liabilities under FASB Statement No. 157. This proposed FSP would clarify the principles in FASB Statement No. 157, Fair Value Measurements, on the measurement of liabilities. This FSP, if adopted as it is currently written, will be applied on a prospective basis effective on the beginning of the period that includes the issuance date of the FSP.



In March 2008, the FASB issued proposed FSP FAS 132(R)-a, Employers' Disclosures about Postretirement Benefit Plan Assets. In December 2008, the FASB issued the final FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP is the result of FASB's redeliberations of that proposed FSP. The provisions of this FSP only apply to single-employer defined benefit plans; the Company participates in a multi-employer defined benefit pension plan. Therefore, the requirements of this FSP will not affect the consolidated financial condition or results of operations of the Company, or the related disclosures about plan assets.

#### Comparison of Financial Condition at December 31, 2008 and December 31, 2007

During the year ended December 31, 2008, the Company increased total assets by \$228.2 million to \$2.66 billion. Net loans decreased by \$96.4 million. The main loan areas experiencing decreases were commercial and residential construction and commercial business. This was partially offset by increases in single-family and multi-family residential mortgage loans and consumer loans. Given the current economy, the Company expects that loan growth overall may continue to be negative as the construction loan category will likely continue to decrease. The Company expects to continue to increase balances in single-family and multi-family residential mortgage loans and consumer loans. Available-for-sale investment securities increased by \$222.7 million, primarily due to increased balances of U. S. Government and U. S. Government Agency mortgage-backed securities which were used for pledging to public fund deposit accounts and customer repurchase agreements, and to provide additional liquidity to the Company. While there is no specifically stated goal, the available-for-sale securities portfolio has in recent years been approximately 15% to 20% of total assets. The available-for-sale securities portfolio was 24.3% and 17.5% of total assets at December 31, 2008 and 2007, respectively. Cash and cash equivalents increased \$87.4 million, again due to the Company's decision to maintain additional liquidity in 2008 and due to funds received from U.S. Treasury under the Capital Purchase Program (CPP). Foreclosed assets increased \$12.3 million, primarily due to the foreclosure of several loan relationships throughout 2008. See "Non-performing Assets" for additional information on foreclosed assets.

Total liabilities increased \$184.0 million from December 31, 2007 to \$2.43 billion at December 31, 2008. Deposits increased \$144.9 million, securities sold under reverse repurchase agreements with customers increased \$71.5 million, structured repurchase agreements increased \$50.0 million and short-term borrowings increased \$10.4 million, while FHLBank advances decreased \$93.4 million. The increases in securities sold under repurchase agreements with customers was the result of corporate customers' desires to place funds in excess of deposit insurance limits in secured accounts. The increase in short-term borrowings related to additional term borrowings from the FRB under the Term Auction Facility program. FHLBank advances decreased from \$213.9 million at December 31, 2007, to \$120.5 million at December 31, 2008. 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. In September 2008, the Company entered into a structured repo borrowing transaction for \$50 million. This borrowing bears interest at a fixed rate of 4.34% if three-month LIBOR remains at 2.81% or less on quarterly interest reset dates; if LIBOR is above the 2.81% rate on quarterly interest reset dates, then the Company's borrowing rate decreases by 2.5 times the difference in LIBOR (up to 250 basis points). Deposits (excluding brokered and national certificates of deposit) decreased \$166.7 million from December 31, 2007. Retail CDs and non-interest-bearing transaction accounts decreased \$34.6 million and \$27.5 million, respectively. Interest-bearing checking accounts (mainly money market accounts) decreased \$104.6 million. Checking account balances totaled \$525.2 million at December 31, 2008, down from \$657.4 million at December 31, 2007. A significant amount of this reduction in checking balances was moved into customer reverse repurchase agreements as noted above. Total brokered deposits were \$974.5 million at December 31, 2008, up from \$674.6 million at December 31, 2007. Included in these totals at December 31, 2008 and December 31, 2007, were Great Southern Bank customer deposits totaling \$168.3 million and \$88.8 million, respectively, that are part of the CDARS program which allows bank customers to maintain balances in an insured manner that would otherwise exceed the FDIC deposit insurance limit. The Company decided to increase the amount of longer-term brokered certificates of

deposit in 2008 to provide liquidity for operations and to maintain in reserve its available secured funding lines with the FHLBank and the FRB. In 2008, the Company issued approximately \$359 million of new brokered certificates which are fixed rate certificates with maturity terms of generally two to four years, which the Company (at its discretion) may redeem at par generally after six months. As market interest rates on these types of deposits have decreased in recent months, the Company has begun to redeem some of these certificates in 2009 in order to lock in cheaper funding rates or reduce excess cash balances. In addition during 2008, the Company issued approximately \$137 million of new brokered certificates, which are fixed rate certificates with maturity terms of generally two to four years, which the Company may not redeem prior to maturity. There are no interest rate swaps associated with these brokered certificates.

Total stockholders' equity increased \$44.2 million from \$189.9 million at December 31, 2007 to \$234.1 million at December 31, 2008. The large increase was the result of the Company's participation in the Treasury's

CPP, under which the Company issued \$58.0 million of perpetual preferred stock and common stock warrants. The Company recorded a net loss for fiscal year 2008 of \$4.4 million and accumulated other comprehensive loss decreased \$400,000. Total stockholders' equity was also reduced by common dividends declared of \$9.6 million and preferred dividends of \$210,000. In 2008, the Company repurchased 21,200 shares of its common stock at an average price of \$19.19 per share and reissued 1,972 shares of Company stock at an average price of \$13.23 per share to cover stock option exercises. At December 31, 2008, common stockholders' equity was \$178.5 million (6.7% of total assets), equivalent to a book value of \$13.34 per common share.

Our participation in the CPP currently precludes us from purchasing shares of the Company's stock until the earlier of December 5, 2011 or our repayment of the CPP funds. Management has historically utilized stock buy-back programs from time to time as long as repurchasing the stock contributed to the overall growth of shareholder value. The number of shares of stock repurchased and the price 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.

#### Results of Operations and Comparison for the Years Ended December 31, 2008 and 2007

##### General

Including the effects of the Company's hedge accounting entries recorded in 2008 and 2007, net income decreased \$33.7 million, or 115.1%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. This decrease was primarily due to an increase in provision for loan losses of \$46.7 million, or 853.4%, an increase in non-interest expense of \$4.0 million, or 7.7%, and a decrease in non-interest income of \$1.3 million, or 4.3%, partially offset by a decrease in provision for income taxes of \$18.1 million, or 126.2%, and an increase in net interest income of \$178,000, or 0.2%.

Excluding the effects of the Company's hedge accounting entries recorded in 2008 and 2007, net income decreased \$35.9 million, or 124.0%, during the year ended December 31, 2008, compared to the year ended December 31, 2007. This decrease was primarily due to an increase in provision for loan losses of \$46.7 million, or 853.4%, an increase in non-interest expense of \$4.0 million, or 7.7%, and a decrease in non-interest income of \$6.6 million, or 23.6%, partially offset by a decrease in provision for income taxes of \$19.3 million, or 136.0%, and an increase in net interest income of \$2.1 million, or 2.9%. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

The information presented in the table below and elsewhere in this report excluding hedge accounting entries recorded (for the 2008, 2007 and 2006 periods) is not prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The tables below and elsewhere in this report excluding hedge accounting entries recorded (for the 2008, 2007 and 2006 periods) contain reconciliations of this information to the reported information prepared in accordance with GAAP. The Company believes that this non-GAAP financial information is useful in its internal management financial analyses and may also be useful to investors because the Company believes that the exclusion of these items from the specified components of net income better reflect the Company's underlying operating results during the periods indicated for the reasons described above. The amortization of the deposit broker fee and the net change in fair value of interest rate swaps and related deposits may be volatile. For example, if market interest rates decrease significantly, the interest rate swap counterparties may wish to terminate the swaps prior to their stated maturities. If a swap is terminated, it is likely that the Company would redeem the related deposit account at face value. If the deposit account is redeemed, any unamortized broker fee associated with the deposit account must be written off to interest expense. In addition, if the interest rate swap is terminated, there may be an income or expense impact related to the fair values of the swap and related deposit which were previously recorded in the

Company's financial statements. The effect on net income, net interest income, net interest margin and non-interest income could be significant in any given reporting period.

	Non-GAAP Reconciliation (Dollars in thousands)			
	Year Ended December 31, 2008		2007	
	Dollars	Earnings Per Diluted Share	Dollars	Earnings Per Diluted Share
Reported Earnings (per common share)	\$ (4,670)	\$ (0.35)	\$ 29,299	\$ 2.15
Amortization of deposit broker origination fees (net of taxes)	2,022		762	
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(4,534)		(1,102)	
Earnings excluding impact of hedge accounting entries	\$ (7,182)		\$ 28,959	

#### Total Interest Income

Total interest income decreased \$19.1 million, or 11.6%, during the year ended December 31, 2008 compared to the year ended December 31, 2007. The decrease was due to a \$22.9 million, or 16.0%, decrease in interest income on loans, partially offset by a \$3.8 million, or 18.1%, increase in interest income on investments and other interest-earning assets. Interest income for loans, investment securities and other interest-earning assets increased due to higher average balances. Interest income for investment securities and other interest-earning assets decreased slightly due to lower average rates of interest while loans experienced a significant decrease in average rates of interest due to the significant rate cuts by the FRB in 2008.

#### Interest Income - Loans

During the year ended December 31, 2008 compared to the year ended December 31, 2007, interest income on loans decreased primarily due to significantly lower average interest rates. Interest income on loans decreased \$28.2 million as the result of lower average interest rates. The average yield on loans decreased from 8.04% during the year ended December 31, 2007, to 6.51% during the year ended December 31, 2008. Average loan rates were much lower in 2008 compared to 2007, as a result of market rates of interest, primarily the "prime rate" of interest. During the last quarter of 2007, market interest rates decreased, with the "prime rate" of interest decreasing 1.00% by the end of December 2007. Then in 2008, the "prime rate" decreased another 4.00% to a rate of 3.25% at December 31, 2008. 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. Prior to 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 2008, the declining interest rates once again put these loan rate floors in effect and established a loan rate which was higher than the contractual rate would have otherwise been. In the year ended December 31, 2007, the average yield on loans was 8.04% versus an average prime rate for the period of 8.05%, or a difference of a negative 1 basis point. In the year ended December 31, 2008, the average yield on loans was 6.51% versus an average prime rate for the period of 5.10%, or a difference of 141 basis points.

Interest income increased \$5.3 million as the result of higher average loan balances from \$1.77 billion during the year ended December 31, 2007 to \$1.84 billion during the year ended December 31, 2008. The higher average balance resulted principally from the Bank's increased commercial real estate lending, single-family and multi-family residential lending and consumer lending. The Bank's commercial and residential construction and commercial business average loan balances experienced small decreases compared to 2007.

For the years ended December 31, 2008, and 2007, interest income was reduced \$1.2 million and \$1.6 million, respectively, due to the reversal of accrued interest on loans that were added to non-performing status during the period. Partially offsetting this, the Company collected interest that was previously charged off in the amount of \$227,000 and \$183,000 in the years ended December 31, 2008 and 2007, respectively, due to work-out efforts on non-performing loans. See "Net Interest Income" for additional information on the impact of this interest activity.

### Interest Income - Investments and Other Interest-earning Deposits

Interest income on investments and other interest-earning assets increased as a result of higher average balances during the year ended December 31, 2008, when compared to the year ended December 31, 2007. Interest income increased \$4.8 million as a result of an increase in average balances from \$431 million during the year ended December 31, 2007, to \$534 million during the year ended December 31, 2008. This increase was primarily in available-for-sale mortgage-backed securities, where securities were needed for liquidity and pledging against deposit accounts under customer repurchase agreements and public fund deposits. The balance of available-for-sale mortgage-backed securities has increased from \$183.1 million at December 31, 2007 to \$485.2 million at December 31, 2008. Interest income decreased by \$1.0 million as a result of a decrease in average interest rates from 4.91% during the year ended December 31, 2007, to 4.68% during the year ended December 31, 2008. In previous years, 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). As these securities reached interest rate reset dates in 2007, their rates typically increased along with market interest rate increases. As market interest rates (primarily treasury rates and LIBOR rates) generally declined in 2008 and into 2009, the interest rates on those securities that reprice in 2009 likely will decrease at their next interest rate reset date. The majority of the securities added in 2008 are backed by hybrid ARMs which will have fixed rates of interest for a period of time (generally three to ten years) and then will adjust annually. The actual amount of securities that will reprice and the actual interest rate changes on these securities is subject to the level of prepayments on these securities and the changes that actually occur in market interest rates (primarily treasury rates and LIBOR rates). In addition at December 31, 2007, the Company had several agency securities that were callable at the option of the issuer. Many of these securities were redeemed by the issuer in 2008, so the balance of U. S. Government agency securities has decreased from \$125.8 million at December 31, 2007 to \$34.8 million at December 31, 2008. This balance has declined further in 2009.

In addition to the increase in securities, the Company has also experienced an increase in interest-earning deposits and non-interest-earning cash equivalents, where additional liquidity was maintained in 2008 due to uncertainty in the financial system. These deposits and cash equivalents earn very low (or no) yield and therefore negatively impact the Company's net interest margin. At December 31, 2008, the Company had cash and cash equivalents of \$167.9 million compared to \$80.5 million at December 31, 2007.

### Total Interest Expense

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, total interest expense decreased \$19.2 million, or 20.8%, during the year ended December 31, 2008, when compared with the year ended December 31, 2007, primarily due to a decrease in interest expense on deposits of \$15.4 million, or 20.1%, a decrease in interest expense on FHLBank advances of \$2.0 million, or 28.2%, a decrease in interest expense on short-term borrowings and structured repurchase agreements of \$1.5 million, or 19.9%, and a decrease in interest expense on subordinated debentures issued to capital trust of \$452,000, or 23.6%.

Excluding the effects of the Company's hedge accounting entries recorded in 2008 and 2007 for certain interest rate swaps, economically, total interest expense decreased \$21.2 million, or 23.2%, during the year ended December 31, 2008, when compared with the year ended December 31, 2007, primarily due to a decrease in interest expense on deposits of \$17.3 million, or 23.0%, a decrease in interest expense on FHLBank advances of \$2.0 million, or 28.2%, a decrease in interest expense on short-term borrowings and structured repurchase agreements of \$1.5 million, or 19.9%, and a decrease in interest expense on subordinated debentures issued to capital trust of \$452,000, or 23.6%. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial

Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

#### Interest Expense - Deposits

Including the effects of the Company's hedge accounting entries recorded in 2008 and 2007, interest on demand deposits decreased \$7.8 million due to a decrease in average rates from 3.34% during the year ended December 31, 2007, to 1.73% during the year ended December 31, 2008. Average interest rates decreased due to



lower overall market rates of interest in 2008. Market rates of interest on checking and money market accounts began to decrease in late 2007 and throughout 2008 as the FRB reduced short-term interest rates. Interest on demand deposits increased \$124,000 due to an increase in average balances from \$481 million during the year ended December 31, 2007, to \$484 million during the year ended December 31, 2008. The Company's interest-bearing checking balances have grown in the past several years through increased relationships with correspondent, corporate and retail customers. Average interest-bearing demand balances were \$484 million, \$481 million and \$421 million in 2008, 2007 and 2006, respectively. Average non-interest bearing demand balances were \$148 million, \$171 million and \$189 million in 2008, 2007 and 2006, respectively.

Interest expense on deposits decreased \$14.4 million as a result of a decrease in average rates of interest on time deposits from 5.32% during the year ended December 31, 2007, to 4.14% during the year ended December 31, 2008, and increased \$6.7 million due to an increase in average balances of time deposits from \$1.13 billion during the year ended December 31, 2007, to \$1.27 billion during the year ended December 31, 2008. Average interest rates decreased due to lower overall market rates of interest in 2008. Market rates of interest on certificates of deposit began to decrease in late 2007 and throughout 2008 as the FRB reduced short-term interest rates. As certificates of deposit matured in 2008, they were generally replaced with certificates bearing a lower rate of interest. In 2006 and 2007, the Company increased its balances of brokered certificates of deposit to fund a portion of its loan growth. In 2008, the Company increased its balances of brokered certificates of deposit to lengthen a portion of its funding liabilities and to increase liquidity on its balance sheet in addition to its off-balance sheet funding credit lines. Brokered certificates of deposit balances increased \$299.9 million in 2008, from \$674.6 million at December 31, 2007, to \$974.5 million at December 31, 2008. A large portion of this increase relates to the program described below.

Included in the brokered deposits total at December 31, 2008, is \$337.1 which is part of the Certificate of Deposit Account Registry Service (CDARS). This total includes \$168.3 in CDARS customer deposit accounts and \$168.8 in CDARS purchased funds. Included in the brokered deposits total at December 31, 2007, was \$164.7 which was part of the CDARS. This total includes \$88.8 in CDARS customer deposit accounts and \$75.9 in CDARS purchased funds. CDARS customer deposit accounts are accounts that are just like any other deposit account on the Company's books, except that the account total exceeds the FDIC deposit insurance maximum. When a customer places a large deposit with a CDARS Network bank, that bank uses CDARS to place the funds into deposit accounts issued by other banks in the CDARS Network. This occurs in increments of less than the standard FDIC insurance maximum, so that both principal and interest are eligible for complete FDIC protection. Other Network Members do the same thing with their customers' funds.

CDARS purchased funds transactions represent an easy, cost-effective source of funding without collateralization or credit limits for the Company. Purchased funds transactions help the Company obtain large blocks of funding while providing control over pricing and diversity of wholesale funding options. Purchased funds transactions are obtained through a bid process that occurs weekly, with varying maturity terms.

The effects of the Company's hedge accounting entries recorded in 2008 and 2007 did not impact interest on demand deposits.

Excluding the effects of the Company's hedge accounting entries recorded in 2008 and 2007, economically, interest expense on deposits decreased \$16.2 million as a result of a decrease in average rates of interest on time deposits from 5.21% during the year ended December 31, 2007, to 3.89% during the year ended December 31, 2008, and increased \$6.6 million due to an increase in average balances of time deposits from \$1.13 billion during the year ended December 31, 2007, to \$1.27 billion during the year ended December 31, 2008. The average interest rates decreased due to lower overall market rates of interest throughout 2008. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

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

Interest expense on FHLBank advances decreased \$609,000 due to a decrease in average balances on FHLBank advances from \$145 million in the year ended December 31, 2007, to \$133 million in the year ended December 31, 2008. The reason for this decrease was the Company elected to utilize other forms of alternative funding during 2008. In addition, FHLBank advances experienced a decrease in average interest rates from 4.81% during the year ended December 31, 2007, to 3.75% during the year ended December 31, 2008, resulting in decreased interest expense of \$1.4 million.

Interest expense on short-term borrowings and structured repurchase agreements decreased \$4.4 million due to a decrease in average interest rates from 4.30% in the year ended December 31, 2007, to 2.25% in the year ended December 31, 2008. Partially offsetting this decrease, average balances increased from \$171 million during the year ended December 31, 2007, to \$262 million during the year ended December 31, 2008, resulting in increased interest expense of \$2.9 million. The increase in balances of short-term borrowings was primarily due to increases in securities sold under repurchase agreements with Great Southern's corporate customers, utilization of the Federal Reserve's Term Auction Facility and a structured repurchase agreement borrowing entered into in 2008. The FRB began to lower short-term interest rates in the latter portion of 2007 and continued to maintain very low rates throughout 2008.

Interest expense on subordinated debentures issued to capital trust decreased \$622,000 due to a decrease in average interest rates from 6.78% in the year ended December 31, 2007, to 4.73% in the year ended December 31, 2008. Partially offsetting this decrease, interest expense on subordinated debentures issued to capital trust increased \$170,000 due to increases in average balances from \$28.2 million in the year ended December 31, 2007, to \$30.9 million in the year ended December 31, 2008. The average rate of interest on these subordinated debentures decreased in 2008 as these liabilities pay a variable rate of interest that is indexed to LIBOR. In November 2006, the Company redeemed its trust preferred debentures which were issued in 2001 and replaced them with new trust preferred debentures. These new debentures are not subject to an interest rate swap; however, they are variable-rate debentures and bear interest at a rate of three-month LIBOR plus 1.60%, adjusting quarterly. In July 2007, the Company issued additional trust preferred debentures. These new debentures are also not subject to an interest rate swap; however, they are variable-rate debentures and bear interest at a rate of three-month LIBOR plus 1.40%, adjusting quarterly.

#### Net Interest Income

Including the impact of the accounting entries recorded for certain interest rate swaps, net interest income for the year ended December 31, 2008 increased \$178,000 to \$71.6 million compared to \$71.4 million for the year ended December 31, 2007. Net interest margin was 3.01% in the year ended December 31, 2008, compared to 3.24% in 2007, a decrease of 23 basis points.

Most of the decrease in net interest margin resulted from the decision by the Company to increase the amount of longer-term brokered certificates of deposit during 2008 to provide liquidity for operations and to maintain in reserve its available secured funding lines with the FHLBank and the FRB. In 2008, the Company issued approximately \$359 million of new brokered certificates which are fixed rate certificates with maturity terms of generally two to four years, which the Company (at its discretion) may redeem at par generally after six months. As market interest rates on these types of deposits have decreased in recent months, the Company has begun to redeem some of these certificates in 2009 in order to lock in cheaper funding rates. In addition during 2008, the Company issued approximately \$137 million of new brokered certificates, which are fixed rate certificates with maturity terms of generally two to four years, which the Company may not redeem prior to maturity. There are no interest rate swaps associated with these brokered certificates. These longer-term certificates carry an interest rate that is approximately 150 basis points higher than the interest rate that the Company would have paid if it instead utilized short-term advances from the FHLBank. The Company decided the higher rate was justified by the longer term and the ability to keep committed funding lines available throughout 2008. The net interest margin was also negatively impacted as the Company originated some of the new certificates in advance of the anticipated terminations of these existing certificates, thereby causing the Company to have excess funds for a period of time. These excess funds were invested in short-term cash equivalents at rates that at times caused the Company to earn a negative spread. The average balance of interest-bearing cash equivalents in the three and twelve months ended December 31, 2008, was \$76 million and \$42 million, respectively. This compares to the average balance of interest-bearing cash equivalents in the three and twelve months ended December 31, 2007, of \$3 million and \$9 million, respectively. Partially offsetting the increase in brokered CDs,

several existing brokered certificates were redeemed by the Company in 2008 as the related interest rate swaps were terminated by the swap counterparties. Interest rate swap notional amounts have decreased from \$419 million at December 31, 2007, to \$11 million at December 31, 2008. The Company expects to redeem or replace more brokered deposits in 2009 as the excess liquidity is determined by management to no longer be warranted. Interest rates on brokered deposits of similar maturities to those that are callable by the Company have decreased as much as 150 basis points from the rates currently paid on these deposits by the Company. The Company currently has approximately \$257 million of such brokered deposits which may be redeemed at the Company's discretion in the first half of 2009.

Another factor that in 2008 negatively impacted net interest income was the elevated level of LIBOR interest rates compared to Federal Funds rates as a result of credit and liquidity concerns in financial markets. These LIBOR interest rates were elevated approximately 50-75 basis points compared to historical averages versus the stated Federal Funds rate for a significant portion of 2008. This elevated spread has continued into 2009 as the FRB has kept the Federal Funds rate at .25%. While these LIBOR interest rates are still elevated compared to historical averages in relation to Federal Funds, they have decreased along with recent decreases in the Federal Funds rate. The Company has reduced the amount and percentage of interest rate swaps and other borrowings that are indexed to LIBOR. Funding costs related to local market deposits and brokered certificates of deposit have also been elevated due to competition by issuers seeking to generate significant funding.

For the years ended December 31, 2008 and 2007, interest income was reduced \$1.2 million and \$1.6 million, respectively, due to the reversal of accrued interest on loans that were added to non-performing status during the period. Partially offsetting this, the Company collected interest that was previously charged off in the amount of \$227,000 and \$183,000 in the years ended December 31, 2008 and 2007, respectively.

The Company's overall interest rate spread increased 3 basis points, or 1.1%, from 2.71% during the year ended December 31, 2007, to 2.74% during the year ended December 31, 2008. The increase was due to a 136 basis point decrease in the weighted average rate paid on interest-bearing liabilities, partially offset by a 133 basis point decrease in the weighted average yield on interest-earning assets. The Company's overall net interest margin decreased 23 basis points, or 7.1%, from 3.24% for the year ended December 31, 2007, to 3.01% for the year ended December 31, 2008. In comparing the two years, the yield on loans decreased 153 basis points while the yield on investment securities and other interest-earning assets decreased 23 basis points. The rate paid on deposits decreased 126 basis points, the rate paid on FHLBank advances decreased 106 basis points, the rate paid on short-term borrowings decreased 205 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 205 basis points. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

Excluding the impact of the accounting entries recorded for certain interest rate swaps, economically, net interest income for the year ended December 31, 2008 increased \$2.1 million to \$74.7 million compared to \$72.6 million for the year ended December 31, 2007. Net interest margin excluding the effects of the accounting change was 3.14% in the year ended December 31, 2008, compared to 3.29% in the year ended December 31, 2007. The Company's overall interest rate spread increased 11 basis points, or 4.0%, from 2.77% during the year ended December 31, 2007, to 2.88% during the year ended December 31, 2008. The increase was due to a 144 basis point decrease in the weighted average rate paid on interest-bearing liabilities, partially offset by a 133 basis point decrease in the weighted average yield on interest-earning assets. The Company's overall net interest margin decreased 15 basis points, or 4.6%, from 3.29% for the year ended December 31, 2007, to 3.14% for the year ended December 31, 2008. In comparing the two years, the yield on loans decreased 153 basis points while the yield on investment securities and other interest-earning assets decreased 23 basis points. The rate paid on deposits decreased 136 basis points, the rate paid on FHLBank advances decreased 106 basis points, the rate paid on short-term borrowings decreased 205 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 205 basis points.

The prime rate of interest averaged 5.10% during the year ended December 31, 2008 compared to an average of 8.05% during the year ended December 31, 2007. In the last three months of 2007 and throughout 2008, the FRB decreased short-term interest rates. At December 31, 2008, the national "prime rate" stood at 3.25% and the Company's average interest rate on its loan portfolio was 6.35%. Over half of the Bank's loans were tied to prime at December 31, 2008; however, most of these loans had interest rate floors or were indexed to "Great Southern Bank prime," which has

not been reduced below 5.00%. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information on the Company's interest rate risk management.

Non-GAAP Reconciliation:  
(Dollars in thousands)

	Year Ended December 31			
	2008		2007	
	\$	%	\$	%
Reported Net Interest Income/Margin	\$ 71,583	3.01%	\$ 71,405	3.24%
Amortization of deposit broker origination fees	3,111	.13	1,172	.05
Net interest income/margin excluding impact of hedge accounting entries	\$ 74,694	3.14%	\$ 72,577	3.29%

For additional information on net interest income components, refer to "Average Balances, Interest Rates and Yields" table in this Annual Report on Form 10-K. 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 was \$52.2 million and \$5.5 million during the years ended December 31, 2008 and December 31, 2007, respectively. The allowance for loan losses increased \$3.7 million, or 14.5%, to \$29.2 million at December 31, 2008 compared to \$25.5 million at December 31, 2007. Net charge-offs were \$48.5 million in 2008 versus \$6.3 million in 2007. The increase in provision for loan losses and charge-offs for the year ended December 31, 2008, was due principally to the \$35 million which was provided for and charged off in the quarter ended March 31, 2008, related to the Company's loans to the Arkansas-based bank holding company and related loans to individuals described in the Company's Quarterly Report on Form 10-Q for March 31, 2008. In addition, general market conditions, and more specifically, housing supply, absorption rates and unique circumstances related to individual borrowers and projects also contributed to increased provisions and charge-offs. As properties were transferred into non-performing loans or foreclosed assets, evaluations were made of the value of these assets with corresponding charge-offs as appropriate.

In May 2008, the Company determined to record a provision expense and related charge-off of \$35 million related to a \$30 million stock loan to an Arkansas-based bank holding company (ABHC) and the under-collateralized portion of other associated loans totaling \$5 million, which loans were previously discussed in the Company's Annual Report on Form 10-K filed on March 17, 2008, Current Report on Form 8-K filed on May 12, 2008, and Quarterly Report on Form 10-Q filed on May 19, 2008. The charge-off resulted from the appointment of the FDIC as Receiver for ABHC's subsidiary, ABank, by the OCC on May 9, 2008, and the closing of ABank by the FDIC that same day. As a result of these regulatory actions, the \$30 million loan as well as \$5 million, representing the undercollateralized portion of other related loans, were charged off by the Company, with the provision expense and associated charge-off recorded in the first quarter of 2008.

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 and/or requirements for an increase in loan loss provision expense. Management has long ago 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 collectability of the portfolio. More recently, additional procedures have been implemented to provide for more frequent management review of the loan portfolio based on loan size, loan type, delinquencies, on-going correspondence with borrowers, and problem loan work-outs. 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.



The Bank's allowance for loan losses as a percentage of total loans was 1.66%, 1.63% and 1.38% at December 31, 2008, September 30, 2008, and December 31, 2007, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at this time, based on recent internal and external reviews of the Company's loan portfolio and current economic conditions. If economic conditions remain weak or deteriorate significantly, it is possible that additional loan loss provisions would be required, thereby adversely affecting future results of operations and financial condition.

#### Non-performing Assets

As a result of changes in balances and composition of 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 December 31, 2008, were \$65.9 million, up \$10.0 million from December 31, 2007. Non-performing assets as a percentage of total assets were 2.48% at December 31, 2008, compared to 2.30% at December 31, 2007. Compared to December 31, 2007, non-performing loans decreased \$2.3 million to \$33.2 million while foreclosed assets increased \$12.3 million to \$32.7 million. Commercial real estate, construction and business loans comprised \$29.7 million, or 89%, of the total \$33.2 million of non-performing loans at December 31, 2008.

Non-performing Loans. Compared to December 31, 2007, non-performing loans decreased \$2.3 million to \$33.2 million. Non-performing loan increases and decreases are described below.

Increases in non-performing loans in 2008, that remained in Non-Performing Loans at December 31, 2008, included:

- An \$8.3 million loan relationship, which is secured primarily by multiple subdivisions in the St. Louis area. This relationship was charged down \$2 million upon transfer to non-performing loans. The \$8.3 million balance represents the Company's total exposure, but only 55% of the total borrowers' liability, with 45% participated to other banks. This relationship has been with Great Southern since 2005 and lot sales have slowed.
- A \$1.6 million loan relationship, which is secured primarily by eleven houses for sale in Northwest Arkansas. Four of the houses are either under contract or have contracts pending, but none of these sales have been completed at this time.
- A \$3.0 million loan relationship, which is secured primarily by a condominium development in Kansas City. Some sales occurred during 2007, with the outstanding balance decreasing \$1.9 million in 2007. No sales occurred in 2008; however, some principal reduction payments were made. This relationship was charged down approximately \$285,000 upon transfer to non-performing loans in the third quarter of 2008, to a balance of \$2.5 million.
- A \$1.9 million loan relationship, which is secured primarily by a residential subdivision development and developed lots in various subdivisions in Springfield, Mo. This relationship was charged down \$413,000 to \$1.4 million at December 31, 2008 upon receipt of updated appraisals to establish the current value of the collateral.
- A \$2.3 million loan relationship, which is secured primarily by commercial land and acreage to be developed into commercial lots in Northwest Arkansas. This relationship was transferred to non-performing loans in the third quarter of 2008. It was charged down approximately \$320,000 upon transfer to foreclosed assets in the first quarter of 2009, to a balance of \$2.0 million.

At December 31, 2008, six loan relationships in excess of \$1 million accounted for \$23.8 million of the total non-performing loan balance of \$33.2 million. In addition to the five relationships in excess of \$1 million noted

above, one other significant loan relationship was included in Non-performing Loans at December 31, 2007, and remained there at December 31, 2008. This relationship is described below:

- A \$7.7 million loan relationship, which is secured by a condominium and retail historic rehabilitation development in St. Louis. The original relationship has been reduced through the receipt of Tax Increment Financing funds and a portion of the Federal and State historic tax credits ultimately expected to be received by the Company in 2008. Upon receipt of the remaining Federal and State tax credits, the Company expects to reduce the balance of this relationship to approximately \$5.0 million, the value of which is substantiated by a recent appraisal. The Company expects to remove this relationship from loans and hold it as a real estate asset once the tax credit process is completed. To date, six of the ten residential units are leased. The retail space is not leased at this time.

Three other significant relationships were both added to the Non-performing Loans category and subsequently transferred to foreclosed assets during the year ended December 31, 2008:

- A \$2.5 million loan relationship, which was secured primarily by an office and residential historic rehabilitation project in St. Louis, was assumed by a new borrower upon the sale of the collateral. This is now considered a performing loan.
- A portion of the primary collateral underlying a \$1.2 million loan relationship, lots, houses and duplexes for resale in the Joplin, Mo., area, was sold during the fourth quarter of 2008. The remaining properties, totaling \$325,000, were foreclosed during the fourth quarter of 2008.
- A \$1.7 million loan relationship, which involves a retail/office rehabilitation project in the St. Louis metropolitan area, was added to Non-Performing Loans in the first quarter of 2008. This relationship was transferred to foreclosed assets during the second quarter of 2008. A charge-off of approximately \$1.0 million was recorded upon the transfer of the relationship to foreclosed assets. This relationship remains in foreclosed assets at December 31, 2008.

Two other significant relationships were both added to the Non-performing Loans category and subsequently paid off during the year ended December 31, 2008. The first relationship was \$2.7 million, and was secured primarily by a motel in the State of Florida. The primary collateral was sold by the borrower during the third quarter of 2008. The Company received a principal reduction on the debt and financed the new owner. The second relationship was \$6.6 million, and was previously secured by a stock investment in a bank holding company, and then was replaced with anticipated tax refunds, interests in various business ventures and other collateral. A charge-off of approximately \$5.1 million was recorded upon the transfer of the relationship to Non-Performing Loans in the first quarter of 2008. This relationship was reduced to \$687,000, during the third quarter of 2008 through receipt of a portion of the anticipated tax refunds. In November 2008, the Company received a payment from the borrower which reduced the outstanding balance of this relationship on the Company's books to \$-0-.

Five other significant relationships were included in the Non-performing Loans category at December 31, 2007, and were subsequently transferred to foreclosed assets during the year ended December 31, 2008. These relationships are described below:

- A \$1.3 million loan relationship, which involves a restaurant building in Northwest Arkansas, was foreclosed upon during the second quarter of 2008. The Company sold this property prior to December 31, 2008.
- A \$1.9 million loan relationship, which involves partially-developed subdivision lots in northwest Arkansas, was foreclosed upon in the second quarter of 2008. This relationship remains in foreclosed assets at December 31, 2008.
- A \$1.0 million loan relationship, which involves subdivision lots and houses in central Missouri, was foreclosed upon during the first quarter of 2008. This relationship was charged down to \$660,000 upon transfer to foreclosed assets. This relationship remains in foreclosed assets at December 31, 2008.
- A \$5.7 million loan relationship, which involves two office and retail historic rehabilitation developments. At the time this relationship was transferred to the Non-performing Loans category the Company recorded a write-down of \$240,000. Both of the projects are completed and the space in both cases is partially leased. The projects are located in southeast Missouri and southwest Missouri. The project in southwest Missouri was sold prior to December 31, 2008. The project in southeast Missouri remains in foreclosed assets at December 31, 2008, with a balance of \$3.9 million. While this asset is included in the Company's Non-Performing Asset totals and ratios, the Company does not consider it to be a "Substandard Asset" as it produces a market return on the amount invested.

-

A \$1.3 million loan relationship, which involves several completed houses in the Branson, Mo., area, was foreclosed upon during the second quarter of 2008. At December 31, 2008, this relationship was recorded in foreclosed assets at \$1.0 million after a \$200,000 write-down in the second quarter of 2008 and the sale of a portion of the properties which reduced the relationship balance by \$219,000.

Two other significant relationships were included in the Non-performing Loans category at December 31, 2007, and subsequently were paid off during the year ended December 31, 2008. The first relationship was \$3.3 million, which was secured by a nursing home in the State of Missouri. This relationship was paid off in the first quarter of 2008 upon the sale of the facility. The Company had previously recorded a charge to the allowance for loan losses regarding this relationship and recovered approximately \$500,000 to the allowance upon receipt of the

loan payoff. The second relationship was \$2.6 million. A portion of the primary collateral underlying this loan relationship, the borrowers' interest in a publicly regulated entity, was sold by the borrower during the third quarter of 2008. The borrower sold a two-thirds interest in the entity and the new owner assumed the debt to the Company.

**Foreclosed Assets.** Of the total \$32.7 million of foreclosed assets at December 31, 2008, foreclosed real estate totaled \$31.9 million and repossessed automobiles, boats and other personal property totaled \$746,000. Foreclosed assets increased \$12.3 million during the year ended December 31, 2008, from \$20.4 million at December 31, 2007, to \$32.7 million at December 31, 2008. During the year ended December 31, 2008, foreclosed assets increased primarily due to the addition of five significant relationships to the foreclosed assets category and the addition of several smaller relationships that involve houses that are completed and for sale or under construction, as well as developed subdivision lots, partially offset by the sale of similar houses and subdivision lots. These five significant relationships, along with four significant relationships from December 31, 2007 that remain in the foreclosed assets category, are described below.

At December 31, 2008, nine separate relationships totaled \$20.4 million, or 63%, of the total foreclosed assets balance. These nine relationships include:

- A \$3.3 million asset relationship, which involves a residential development in the St. Louis, Mo., metropolitan area. This St. Louis area relationship was foreclosed in the first quarter 2008. The Company recorded a loan charge-off of \$1.0 million at the time of transfer to foreclosed assets based upon updated valuations of the assets. The Company is pursuing collection efforts against the guarantors on this credit.
- A \$3.9 million asset relationship, which involves an office and retail historic rehabilitation development in southeast Missouri. While this asset is included in the Company's Non-Performing Asset totals and ratios, the Company does not consider it to be a "Substandard Asset" as it produces a market return on the amount invested.
- A \$2.7 million asset relationship, which involves a mixed use development in the St. Louis, Mo., metropolitan area. This was originally a \$15 million loan relationship that was reduced by guarantors paying down the balance by \$10 million and the allocation of a portion of the collateral to a performing loan, the payment of which comes from Tax Increment Financing revenues of the development.
- A \$2.3 million relationship, which involves residential developments in Northwest Arkansas. One of the developments has some completed houses and additional lots. The second development is comprised of completed duplexes and triplexes. A few sales of single-family houses have occurred and the remaining properties are being marketed for sale. This relationship has been reduced from \$3.1 million through the sale of some of the houses.
- A \$2.2 million loan relationship, which previously involved two residential developments (now one development) in the Kansas City, Mo., metropolitan area. This subdivision is primarily comprised of developed lots with some additional undeveloped ground. This relationship has been reduced from \$4.3 million through the sale of one of the subdivisions and a charge down of the balance. The Company is marketing the property for sale.
- A \$1.9 million loan relationship, which involves partially-developed subdivision lots in northwest Arkansas, was foreclosed upon in the second quarter of 2008. The Company is marketing the property for sale.
- A \$1.8 million relationship, which involves a residence and commercial building in the Lake of the Ozarks, Mo., area. The Company is marketing these properties for sale.
- A \$1.4 million relationship, which involves residential developments, primarily residential lots in three different subdivisions and undeveloped ground, in the Branson, Mo., area. The Company has been in contact with various

developers to determine interest in the projects and is marketing these properties for sale.

- A \$1.0 million loan relationship, which involves several completed houses in the Branson, Mo., area. The Company is marketing these properties for sale.

Potential Problem Loans. Potential problem loans decreased \$12.5 million during the year ended December 31, 2008 from \$30.3 million at December 31, 2007 to \$17.8 million at December 31, 2008. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems that may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in non-performing assets.

During the year ended December 31, 2008, potential problem loans decreased primarily due to the transfer of four unrelated significant relationships totaling \$13.3 million from the Potential Problem Loans category to other non-performing asset categories as previously discussed above. Two of these relationships involve residential construction and development loans - one relationship in Springfield totaling \$3.0 million and one relationship in the St. Louis area totaling \$4.3 million. The two other relationships involve a motel in the State of Florida totaling \$2.7 million and a condominium development in Kansas City totaling \$3.2 million. In addition, one other relationship that is secured primarily by a subdivision and vacant land near Little Rock, Arkansas was removed from the Potential Problem Loan category due to an ownership change in the project, which added equity to the project as well as additional guarantor support, and a reduction of \$562,000 from the sale of a portion of the collateral.

During the year ended December 31, 2008, potential problem loans increased primarily due to the addition of four unrelated relationships totaling \$5.7 million to the Potential Problem Loans category. The first relationship consists of an office building and commercial land near Springfield, Missouri totaling \$3.2 million. The borrower has experienced cash flow problems on other projects which have led to payment delinquencies on this project. The second relationship consists of vacant land (pad sites) to be developed for condominiums near Branson, Missouri totaling \$0.9 million. Sales of the units have been slower than projections resulting in cash flow problems. The third relationship consists of subdivision lots in southwest Missouri totaling \$0.9 million. The fourth relationship consists of subdivision lots and houses in southwest Missouri totaling \$0.7 million.

At December 31, 2008, three other large unrelated relationships were included in the Potential Problem Loan category. All three of these relationships were included in the Potential Problem Loan category at December 31, 2007. The first relationship totaled \$1.4 million at December 31, 2007, and was reduced to \$1.1 million at December 31, 2008, through the sale of houses. The relationship is secured primarily by a retail center, developed and undeveloped residential subdivisions, and single-family houses being constructed for resale in the Springfield, Missouri, area. The second relationship consists of a retail center, improved commercial land and other collateral in the states of Georgia and Texas totaling \$3.3 million. During 2008, the Company obtained additional collateral and guarantor support. The third relationship consists of a residential subdivision in Springfield, Missouri totaling \$2.1 million. At December 31, 2008, these seven significant relationships described above accounted for \$12.2 million of the potential problem loan total.

#### Non-interest Income

Including the effects of the Company's hedge accounting entries recorded in 2008 and 2007 for certain interest rate swaps, non-interest income for the year ended December 31, 2008 was \$28.1 million compared with \$29.4 million for the year ended December 31, 2007. The \$1.3 million, or 4.3%, decrease in non-interest income was primarily the result of the impairment write-down in value of certain available-for-sale equity investments and lower commission revenue from the Company's travel and investment divisions, partially offset by an increase in income related to the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits.

The impairment write-down totaled \$7.4 million on a pre-tax basis (including \$5.3 million related to Fannie Mae and Freddie Mac preferred stock, which was discussed in the September 30, 2008, Quarterly Report on Form 10-Q). These equity investments have experienced significant fair value declines over the past year. It is unclear if or when the values of these investment securities will improve, or whether such values will deteriorate further. Based on these developments, the Company recorded an other-than-temporary impairment. The Company continues to hold these securities in the available-for-sale category. The Company also recorded an impairment write-down of \$1.1 million on a pre-tax basis in 2007.



For the year ended December 31, 2008, commission income from the Company's travel, insurance and investment divisions decreased \$1.2 million, or 12.2%, compared to 2007. Part of this decrease (\$775,000) was in the investment division as a result of the alliance formed with Ameriprise Financial Services through Penney, Murray and Associates. As a result of this change, Great Southern now records most of its investment services activity on a net basis in non-interest income. Thus, non-interest expense related to the investment services division is also reduced. The Company's travel division also experienced a decrease in commission income of \$543,000 in 2008 compared to 2007. Customers are reducing their travel as a result of current economic conditions.

A significant increase in non-interest income was due to the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits, which resulted in an increase of \$7.0 million in the year ended December 31, 2008, and an increase of \$1.6 million in the year ended December 31, 2007. Income of this magnitude related to the change in the fair value of certain interest rate swaps and the related change in the fair value of hedged deposits should not be expected in future years. This income is part of a 2005 accounting restatement in which approximately \$3.4 million (net of taxes) was charged against retained earnings in 2005. This charge has been (and continues to be) recovered in subsequent periods as interest rate swaps matured or were terminated by the swap counterparty. In the first quarter of 2009, the interest rate swap counterparties have elected to exercise the call options on the remaining callable swaps and the Company has elected to redeem the related certificates of deposit. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

Excluding the securities losses and interest rate swap income discussed above, non-interest income for the year ended December 31, 2008, was \$28.5 million compared with \$28.9 million for the year ended December 31, 2007, or a decrease of \$409,000. This decrease was primarily attributable to the lower commission revenue from the Company's travel and investment divisions, which was discussed above, partially offset by an increase of \$378,000 in gains on sales of mortgage loans.

Non-GAAP Reconciliation  
(Dollars in thousands)

	Year Ended December 31, 2008		
	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	\$ 28,144	\$ 6,976	\$ 21,168
	Year Ended December 31, 2007		
	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of	\$ 29,419	\$ 1,695	\$ 27,724

interest rate swaps  
and  
related deposits

#### Non-Interest Expense

Total non-interest expense increased \$4.0 million, or 7.7%, from \$51.7 million in the year ended December 31, 2007, compared to \$55.7 million in the year ended December 31, 2008. The increase was primarily due to: (i) an increase of \$920,000, or 3.1%, in salaries and employee benefits; (ii) an increase of \$750,000, or 50.9%, in insurance expense (primarily FDIC deposit insurance); (iii) an increase of \$2.8 million, or 464.3%, in expense on foreclosed assets; (iv) an increase of \$492,000, or 39.5%, in legal and professional fees (primarily legal fees related to the credit resolution process) and (v) smaller increases and decreases in other non-interest expense areas, such as occupancy and equipment expense, postage, advertising and telephone. The Company's efficiency ratio for the year ended December 31, 2008, was 55.86% compared to 51.28% in 2007. These efficiency ratios include the impact of the hedge accounting entries for certain interest rate swaps. Excluding the effects of these entries, the efficiency ratio for the full year 2008 was 58.11% compared to 51.55% in 2007. The Company's ratio of non-interest expense to average assets decreased from 2.18% for the year ended December 31, 2007, to 2.07% for the year ended December 31, 2008.

In 2007, the Federal Deposit Insurance Corporation (FDIC) began to once again assess insurance premiums on insured institutions. Under the new pricing system, institutions in all risk categories, even the best rated, are charged an FDIC premium. Great Southern received a deposit insurance credit as a result of premiums previously paid. The Company's credit offset assessed premiums for the first half of 2007, but premiums were owed by the Company beginning in the latter half of 2007 and throughout 2008. The Company incurred additional deposit insurance expense of \$827,000 related to this in 2008 compared to 2007. The Company expects significant increased expense in 2009 as a result of the FDIC increasing insurance premiums for all banks and with additional expense based upon deposit growth.

Due to the increases in levels of foreclosed assets, foreclosure-related expenses in 2008 were higher than 2007 by approximately \$2.8 million (net of income received on foreclosed assets). The Company expects that expenses on foreclosed assets and expenses related to the credit resolution process will remain elevated in 2009.

The Company's increase in non-interest expense in 2008 compared to 2007 also related to the continued growth of the Company. In March 2007, Great Southern completed its acquisition of a travel agency in St. Louis. In addition since June 2007, the Company opened banking centers in Springfield, Mo. and Branson, Mo. As a result, in the year ended December 31, 2008, compared to the year ended December 31, 2007, non-interest expenses increased \$576,000 related to the ongoing operations of these entities.

## Non-GAAP Reconciliation:

(Dollars in thousands)

Year Ended December 31,

	Non-Interest Expense	2008 Revenue Dollars*	%	Non-Interest Expense	2007 Revenue Dollars*	%
Efficiency Ratio	\$ 55,706	\$ 99,727	55.86%	\$ 51,707	\$ 100,824	51.28%
Amortization of deposit broker						
origination fees	---	3,111	(1.81)	---	1,172	(.61)
Net change in fair value of interest rate swaps and related deposits	---	(6,976)	4.06	---	(1,695)	.88
Efficiency ratio excluding impact of hedge accounting entries	\$ 55,706	\$ 95,862	58.11%	\$ 51,707	\$ 100,301	51.55%

\*Net interest income plus non-interest income.

## Provision for Income Taxes

Provision for income taxes as a percentage of pre-tax income was 32.9% for the year ended December 31, 2007. The Company's effective tax benefit rate was 45.9% for the year ended December 31, 2008. The effective tax rate (as compared to the statutory federal tax rate of 35.0%) was primarily affected by higher balances and rates of tax-exempt investment securities and loans in both years, and in 2008, was also influenced by the amount of the tax-exempt interest income relative to the Company's pre-tax loss. For future periods, the Company expects the effective tax rate

to be in the range of 32-35% of pre-tax net income.

## 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 \$2.5 million, \$3.2 million and \$2.8 million for 2008, 2007 and 2006, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

	December 31, 2008		Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006			
	Average Yield/Rate	Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:	(Dollars in thousands)									
Loans receivable:										
One- to four-family residential	6.22%	\$ 206,299	\$ 13,290	6.44%	\$ 180,797	\$ 12,714	7.03%	\$ 177,040	\$ 12,031	6.80%
Other residential	6.54	109,348	7,214	6.60	81,568	6,914	8.48	86,251	7,078	8.21
Commercial real estate	6.46	479,347	32,250	6.73	456,377	37,614	8.24	464,710	37,958	8.17
Construction	5.98	649,037	41,448	6.39	673,576	55,993	8.31	586,343	49,792	8.49
Commercial business	5.91	162,512	10,013	6.16	171,902	14,160	8.24	111,742	9,587	8.58
Other loans	7.32	179,731	11,871	6.60	153,421	11,480	7.48	142,877	10,560	7.39
Industrial revenue bonds(1)	6.38	55,728	3,743	6.72	56,612	3,844	6.79	84,199	6,088	7.23
Total loans receivable	6.35	1,842,002	119,829	6.51	1,774,253	142,719	8.04	1,653,162	133,094	8.05
Investment securities and other interest-earning assets(1)	5.00	533,567	24,985	4.68	430,874	21,152	4.91	387,110	16,987	4.39
Total interest-earning assets	5.97	2,375,569	144,814	6.10	2,205,127	163,871	7.43	2,040,272	150,081	7.36
Noninterest-earning assets:										
Cash and cash		71,989			84,668			98,210		

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

equivalents										
Other										
non-earning										
assets		74,446			50,648			40,710		
Total assets		\$ 2,522,004			\$ 2,340,443			\$ 2,179,192		
Interest-bearing										
liabilities:										
Interest-bearing										
demand and										
savings	1.18	\$ 484,490	8,370	1.73	\$ 480,756	16,043	3.34	\$ 421,201	12,678	3.01
Time deposits	3.67	1,268,941	52,506	4.14	1,131,825	60,189	5.32	1,035,685	53,055	5.12
Total deposits	3.13	1,753,431	60,876	3.47	1,612,581	76,232	4.73	1,456,886	65,733	4.51
Short-term										
borrowings	1.78	262,004	5,892	2.25	170,946	7,356	4.30	129,523	5,648	4.36
Subordinated										
debentures										
issued to capital										
trust	4.87	30,929	1,462	4.73	28,223	1,914	6.78	18,739	1,335	7.12
FHLB advances	3.30	133,477	5,001	3.75	144,773	6,964	4.81	180,414	8,138	4.51
Total interest-										
bearing										
liabilities	2.95	2,179,841	73,231	3.36	1,956,523	92,466	4.72	1,785,562	80,854	4.53
Noninterest-bearing										
liabilities:										
Demand deposits		147,665			171,479			189,484		
Other liabilities		10,873			26,716			38,352		
Total										
liabilities		2,338,379			2,154,718			2,013,398		
Stockholders' equity		183,625			185,725			165,794		
Total liabilities										
and										
stockholders'										
equity		\$ 2,522,004			\$ 2,340,443			\$ 2,179,192		
Net interest										
income:										
Interest rate	%		%		%		%		%	
spread	3.02	\$ 71,583	2.74		\$ 71,405	2.71		\$ 69,227	2.83	
Net interest			%			%			%	
margin*			3.01			3.24			3.39	
Average		109.0%			112.7%			114.3%		
interest-earning										
assets to average										
interest-bearing										

liabilities

83

\* 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 \$62.4 million, \$69.7 million and \$63.1 million for 2008, 2007 and 2006, respectively. In addition, average tax-exempt industrial revenue bonds were \$33.1 million, \$30.6 million and \$25.8 million in 2008, 2007 and 2006, respectively. Interest income on tax-exempt assets included in this table was \$4.7 million \$4.4 million and \$4.0 million for 2008, 2007 and 2006, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$3.6 million, \$3.2 million and \$2.8 million for 2008, 2007 and 2006, respectively.

#### 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.

	Year Ended December 31, 2008 vs. December 31, 2007			Year Ended December 31, 2007 vs. December 31, 2006		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume		Rate	Volume	
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable	\$ (28,166)	\$ 5,276	\$ (22,890)	\$ (116)	\$ 9,741	\$ 9,625
Investment securities and other interest-earning assets	(1,013)	4,846	3,833	2,133	2,032	4,165
Total interest-earning assets	(29,179)	10,122	(19,057)	2,017	11,773	13,790
Interest-bearing liabilities:						
Demand deposits	(7,797)	124	(7,673)	1,462	1,903	3,365
Time deposits	(14,403)	6,720	(7,683)	2,076	5,058	7,134
Total deposits	(22,200)	6,844	(15,356)	3,538	6,961	10,499
	(4,396)	2,932	(1,464)	(75)	1,783	1,708



Short-term borrowings and structured repo						
Subordinated debentures issued to capital trust	(622)	170	(452)	(67)	646	579
FHLBank advances	(1,354)	(609)	(1,963)	514	(1,688)	(1,174)
Total interest-bearing liabilities	(28,572)	9,337	(19,235)	3,910	7,702	11,612
Net interest income	\$ (607)	\$ 785	\$ 178	\$ (1,893)	\$ 4,071	\$ 2,178

## Results of Operations and Comparison for the Years Ended December 31, 2007 and 2006

## General

Including the effects of the Company's hedge accounting entries recorded in 2007 and 2006, net income decreased \$1.4 million, or 4.7%, during the year ended December 31, 2007, compared to the year ended December 31, 2006. This decrease was primarily due to an increase in non-interest expense of \$2.9 million, or 5.8%, an increase in provision for income taxes of \$484,000, or 3.5%, and a decrease in non-interest income of \$213,000, or 0.7%, partially offset by an increase in net interest income of \$2.2 million, or 3.1%.

Excluding the effects of the Company's hedge accounting entries recorded in 2007 and 2006, net income decreased \$1.7 million, or 5.7%, during the year ended December 31, 2007, compared to the year ended December 31, 2006. This decrease was primarily due to an increase in non-interest expense of \$2.9 million, or 5.8%, an increase in provision for income taxes of \$328,000, or 2.4%, and a decrease in non-interest income of \$55,000, or 0.2%, partially offset by an increase in net interest income of \$1.6 million, or 2.2%. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

The information presented in the table below and elsewhere in this report excluding hedge accounting entries recorded (for the 2007 and 2006 periods) is not prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The tables below and elsewhere in this report excluding hedge accounting entries recorded (for the 2007 and 2006 periods) contain reconciliations of this information to the reported information prepared in accordance with GAAP. The Company believes that this non-GAAP financial information is useful in its internal management financial analyses and may also be useful to investors because the Company believes that the exclusion of these items from the specified components of net income better reflect the Company's underlying operating results during the periods indicated for the reasons described above. The amortization of the deposit broker fee and the net change in fair value of interest rate swaps and related deposits may be volatile. For example, if market interest rates decrease significantly, the interest rate swap counterparties may wish to terminate the swaps prior to their stated maturities. If a swap is terminated, it is likely that the Company would redeem the related deposit account at face value. If the deposit account is redeemed, any unamortized broker fee associated with the deposit account must be written off to interest expense. In addition, if the interest rate swap is terminated, there may be an income or expense impact related to the fair values of the swap and related deposit which were previously recorded in the Company's financial statements. The effect on net income, net interest income, net interest margin and non-interest income could be significant in any given reporting period.

	Non-GAAP Reconciliation			
	(Dollars in thousands)			
	Year Ended December 31,			
	2007		2006	
	Dollars	Earnings Per Diluted Share	Dollars	Earnings Per Diluted Share
Reported Earnings	\$ 29,299	\$ 2.15	\$ 30,743	\$ 2.22
Amortization of deposit broker origination fees (net of taxes)	762		1,155	
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(1,102)		(1,204)	
Earnings excluding impact of hedge accounting entries	\$ 28,959		\$ 30,694	
Total Interest Income				

Total interest income increased \$13.8 million, or 9.2%, during the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was due to a \$9.6 million, or 7.2%, increase in interest income on loans and a \$4.2 million, or 24.5%, increase in interest income on investments and other interest-earning assets. Interest income for both loans and investment securities and other interest-earning assets increased due to higher average balances. Interest income for investment securities and other interest-earning assets also increased due to higher average rates of interest while loans experienced average rates of interest that were effectively unchanged.

### Interest Income - Loans

During the year ended December 31, 2007 compared to December 31, 2006, interest income on loans increased primarily due to higher average balances. Interest income increased \$9.7 million as the result of higher average loan balances from \$1.65 billion during the year ended December 31, 2006 to \$1.77 billion during the year ended December 31, 2007. The higher average balance resulted principally from the Bank's increased commercial and residential construction lending, commercial business lending and consumer lending. The Bank's commercial real estate and multi-family residential average loan balances experienced small decreases, while one- to four-family residential average loan balances increased slightly during 2007.

Interest income on loans decreased \$116,000 as the result of a slight reduction in average interest rates. The average yield on loans decreased from 8.05% during the year ended December 31, 2006, to 8.04% during the year ended December 31, 2007. Average loan rates were generally similar in 2007 and 2006, as a result of market rates of interest, primarily the "prime rate" of interest. During the first half of 2006, market interest rates increased, with the "prime rate" of interest increasing 1.00% by the end of June 2006. 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. Prior to 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 year ended December 31, 2006, the average yield on loans was 8.05% versus an average prime rate for the period of 7.96%, or a difference of 9 basis points. In the year ended December 31, 2007, the average yield on loans was 8.04% versus an average prime rate for the period of 8.05%, or a difference of a negative 1 basis point.

For the years ended December 31, 2007, and 2006, interest income was reduced \$1.6 million and \$695,000, respectively, due to the reversal of accrued interest on loans that were added to non-performing status during the period. Partially offsetting this, the Company collected interest that was previously charged off in the amount of \$227,000 and \$189,000 in the years ended December 31, 2007 and 2006, respectively. See "Net Interest Income" for additional information on the impact of this interest activity.

Additionally, recent FRB interest rate cuts subsequent to December 31, 2007, have impacted interest income and net interest income. Generally, a rate cut by the FRB would have an anticipated immediate negative impact on interest income and net interest income due to the large total balance of loans which generally adjust immediately as Fed Funds adjust. This negative impact is expected to be offset over the following 60- to 120-day period, and subsequently is expected to have a positive impact, as the Company's interest rates on deposits, borrowings and interest rate swaps should also reduce as a result of changes in interest rates by the FRB, assuming normal credit, liquidity and competitive loan and deposit pricing pressures.

### Interest Income - Investments and Other Interest-earning Deposits

Interest income on investments and other interest-earning assets increased as a result of higher average rates of interest during the year ended December 31, 2007, when compared to the year ended December 31, 2006. Interest income increased by \$2.1 million as a result of an increase in average interest rates from 4.39% during the year ended December 31, 2006, to 4.91% during the year ended December 31, 2007. In 2006, as principal balances on mortgage-backed securities were paid down through prepayments and normal amortization, the Company replaced a 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 reached interest rate reset dates in 2007, their rates increased along with market interest rate increases. Approximately \$50-55 million will have interest rate resets at some time in 2008, with the currently projected

weighted average coupon rate decreasing approximately .34% based on market interest rates at December 31, 2007. In addition, approximately \$25-30 million will have initial interest rate resets at some time in 2009. The actual amount of securities that will reprice and the actual interest rate changes on these securities is subject to the level of prepayments on these securities and the changes that actually occur in market interest rates (primarily treasury rates and LIBOR rates). The Company has total variable-rate mortgage-backed securities of approximately \$109 million at December 31, 2007. In addition, the Company also increased its portfolio of tax-exempt securities issued by states and municipalities over the past two years from \$46 million at December 31, 2005 to \$63 million at December 31, 2007. These securities generally have coupon yields that are comparable to treasury market interest rates; however, the tax-equivalent yield is higher. Interest income increased \$2.0 million as a result of an increase in average balances from \$387 million during the year ended December 31, 2006, to \$431 million during the year ended December 31, 2007. This increase was primarily in available-for-sale agency securities, where securities were needed for liquidity and pledging to deposit accounts under customer repurchase agreements and public fund deposits. Many of these agency securities are callable at the option of the issuer, so it is likely that, as market interest rates have declined, agency security balances will be reduced in 2008.

### Total Interest Expense

Including the effects of the Company's accounting change in 2005 for certain interest rate swaps, total interest expense increased \$11.6 million, or 14.4%, during the year ended December 31, 2007, when compared with the year ended December 31, 2006, primarily due to an increase in interest expense on deposits of \$10.5 million, or 16.0%, an increase in interest expense on short-term borrowings of \$1.7 million, or 30.2%, and an increase in interest expense on subordinated debentures issued to capital trust of \$579,000, or 43.4%, partially offset by a decrease in interest expense on FHLBank advances of \$1.2 million, or 14.4%.

Excluding the effects of the Company's hedge accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, total interest expense increased \$12.2 million, or 15.4%, during the year ended December 31, 2007, when compared with the year ended December 31, 2006, primarily due to an increase in interest expense on deposits of \$11.1 million, or 17.4%, an increase in interest expense on short-term borrowings of \$1.7 million, or 30.2%, and an increase in interest expense on subordinated debentures issued to capital trust of \$579,000, or 43.4%, partially offset by a decrease in interest expense on FHLBank advances of \$1.2 million, or 14.4%. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

### Interest Expense - Deposits

Including the effects of the Company's hedge accounting entries recorded in 2007 and 2006, interest on demand deposits increased \$1.5 million due to an increase in average rates from 3.01% during the year ended December 31, 2006, to 3.34% during the year ended December 31, 2007. Average interest rates increased due to higher overall market rates of interest in 2006 and the first nine months of 2007. Market rates of interest on checking and money market accounts began to increase prior to 2007 as the FRB raised short-term interest rates. Interest on demand deposits increased \$1.9 million due to an increase in average balances. The Company's interest-bearing checking balances have grown in the past several years through increased relationships with correspondent, corporate and retail customers. Average interest-bearing demand balances were \$481 million, \$421 million and \$382 million in 2007, 2006 and 2005, respectively. Average non-interest bearing demand balances were \$171 million, \$189 million and \$170 million in 2007, 2006 and 2005, respectively.

Interest expense on deposits increased \$2.1 million as a result of an increase in average rates of interest on time deposits from 5.12% during the year ended December 31, 2006, to 5.32% during the year ended December 31, 2007, and increased \$5.1 million due to an increase in average balances of time deposits from \$1.036 billion during the year ended December 31, 2006, to \$1.132 billion during the year ended December 31, 2007. The average interest rates increased due to higher overall market rates of interest throughout 2006 and into 2007. As certificates of deposit matured in 2006 and the first half of 2007, they were generally replaced with certificates bearing a higher rate of interest. Market rates of interest on new certificates began to increase in the latter half of 2004 through the first half of 2007 as the FRB raised short-term interest rates. In 2006, the Company increased its balances of brokered certificates of deposit to fund a portion of its loan growth. Brokered certificates of deposit balances decreased \$33.6 million in 2007, to \$674.6 million. Retail certificates of deposit increased \$25.2 million in 2007, to \$421.9 million. In addition, the Company's interest rate swaps repriced higher in 2006 and 2007 in conjunction with the increases in market interest rates, specifically LIBOR. LIBOR interest rates increased compared to Federal Funds rates in the last half of 2007 as a result of credit and liquidity concerns in financial markets. These LIBOR interest rates were elevated approximately 30-70 basis points compared to historical averages versus the stated Federal Funds rate. The Company has interest rate swaps and other borrowings that are indexed to LIBOR, thereby causing increased funding costs.

These higher LIBOR interest rates have declined significantly during January and February 2008.

The effects of the Company's hedge accounting entries recorded in 2007 and 2006 did not impact interest on demand deposits.

Excluding the effects of the Company's hedge accounting entries recorded in 2007 and 2006, economically, interest expense on deposits increased \$2.8 million as a result of an increase in average rates of interest on time deposits from 4.95% during the year ended December 31, 2006, to 5.21% during the year ended December 31, 2007, and increased \$4.9 million due to an increase in average balances of time deposits from \$1.036 billion during the year ended December 31, 2006, to \$1.132 billion during the year ended December 31, 2007. The average interest rates increased due to higher overall market rates of interest throughout 2006 and into 2007. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

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

Interest expense on FHLBank advances decreased \$1.7 million due to a decrease in average balances on FHLBank advances from \$180 million in the year ended December 31, 2006, to \$145 million in the year ended December 31, 2007. The reason for this decrease was the Company elected to utilize other forms of alternative funding during 2007. Partially offsetting this decrease, FHLBank advances experienced an increase in average interest rates from 4.51% during the year ended December 31, 2006, to 4.81% during the year ended December 31, 2007, resulting in increased interest expense of \$514,000.

Interest expense on short-term borrowings increased \$1.8 million due to an increase in average balances on short-term borrowings from \$130 million during the year ended December 31, 2006, to \$171 million during the year ended December 31, 2007. Partially offsetting this increase, average interest rates decreased from 4.36% in the year ended December 31, 2006, to 4.30% in the year ended December 31, 2007, resulting in decreased interest expense of \$75,000. The increase in balances of short-term borrowings was primarily due to increases in securities sold under repurchase agreements with Great Southern's corporate customers and increased short-term borrowings in the latter portion of 2007 to take advantage of declining Federal Funds rates. Market rates of interest on short-term borrowings increased beginning in the middle of 2004 through early 2007 as the FRB raised short-term interest rates. The FRB began to lower short-term interest rates in the latter portion of 2007 and has continued to lower these rates in the first two months of 2008.

Interest expense on subordinated debentures issued to capital trust increased \$646,000 due to increases in average balances from \$18.7 million in the year ended December 31, 2006, to \$28.2 million in the year ended December 31, 2007. The average rate of interest on these subordinated debentures decreased slightly in 2007 as these liabilities pay a variable rate of interest that is indexed to LIBOR. In November 2006, the Company redeemed its trust preferred debentures which were issued in 2001 and replaced them with new trust preferred debentures. These new debentures are not subject to an interest rate swap; however, they are variable-rate debentures and bear interest at a rate of three-month LIBOR plus 1.60%, adjusting quarterly. In July 2007, the Company issued additional trust preferred debentures. These new debentures are also not subject to an interest rate swap; however, they are variable-rate debentures and bear interest at a rate of three-month LIBOR plus 1.40%, adjusting quarterly.

#### Net Interest Income

Including the impact of the accounting entries recorded for certain interest rate swaps, net interest income for the year ended December 31, 2007 increased \$2.2 million to \$71.4 million compared to \$69.2 million for the year ended December 31, 2006. Net interest margin was 3.24% in the year ended December 31, 2007, compared to 3.39% in 2006, a decrease of 15 basis points. This margin decrease was caused by several factors. For the years ended December 31, 2007, and 2006, interest income was reduced \$1.6 million and \$695,000, respectively, due to the reversal of accrued interest on loans that were added to non-performing status during the period. Partially offsetting this, the Company collected interest that was previously charged off in the amount of \$227,000 and \$189,000 in the years ended December 31, 2007 and 2006, respectively. Another factor that negatively impacted net interest income and net interest margin in 2007, was the increase in the spread between LIBOR interest rates compared to Federal Funds rates in the last half of 2007 as a result of credit and liquidity concerns in financial markets. These LIBOR interest rates were elevated approximately 30-70 basis points compared to historical averages versus the stated Federal Funds rate. The Company has interest rate swaps and other borrowings that are indexed to LIBOR, thereby causing increased funding costs. These relative higher LIBOR interest rates have declined to more normal levels in 2008. Additionally, recent FRB interest rate cuts have impacted net interest income. Generally, a rate cut by the FRB would have an anticipated immediate negative impact on net interest income due to the large total balance of loans which



generally adjust immediately as Fed Funds adjust. This negative impact is expected to be offset over the following 60 to 120-day period, and subsequently is expected to have a positive impact, as the Company's interest rates on deposits, borrowings and interest rate swaps should also reduce as a result of changes in interest rates by the FRB, assuming normal credit, liquidity and competitive loan and deposit pricing pressures.

The Company's overall interest rate spread decreased 12 basis points, or 4.2%, from 2.83% during the year ended December 31, 2006, to 2.71% during the year ended December 31, 2007. The decrease was due to a 19 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 7 basis point increase in the weighted average yield on interest-earning assets. The Company's overall net interest margin decreased 15 basis points, or 4.4%, from 3.39% for the year ended December 31, 2006, to 3.24% for the year ended December 31, 2007. In comparing the two years, the yield on loans decreased 1 basis point while the yield on investment securities and other interest-earning assets increased 52 basis points. The rate paid on deposits increased 22 basis points, the rate paid on FHLBank advances increased 30 basis points, the rate paid on short-term borrowings decreased 6 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 34 basis points. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005.

For the year ended December 31, 2007, compared to 2006, the average balance of investment securities increased by approximately \$44 million due to the purchase of securities in early 2007 to pledge against increased public fund deposits and customer repurchase agreements. While the Company earned a positive spread on these securities, it was much smaller than the Company's overall net interest spread, having the effect of increasing net interest income but decreasing net interest margin.

Excluding the impact of the accounting entries recorded for certain interest rate swaps, economically, net interest income for the year ended December 31, 2007 increased \$1.6 million to \$72.6 million compared to \$71.0 million for the year ended December 31, 2006. Net interest margin excluding the effects of the accounting change was 3.29% in the year ended December 31, 2007, compared to 3.48% in the year ended December 31, 2006. The Company's overall interest rate spread decreased 16 basis points, or 5.5%, from 2.93% during the year ended December 31, 2006, to 2.77% during the year ended December 31, 2007. The decrease was due to a 23 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 7 basis point increase in the weighted average yield on interest-earning assets. The Company's overall net interest margin decreased 19 basis points, or 5.5%, from 3.48% for the year ended December 31, 2006, to 3.29% for the year ended December 31, 2007. In comparing the two years, the yield on loans decreased 1 basis point while the yield on investment securities and other interest-earning assets increased 52 basis points. The rate paid on deposits increased 26 basis points, the rate paid on FHLBank advances increased 30 basis points, the rate paid on short-term borrowings decreased 6 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 34 basis points.

The prime rate of interest averaged 8.05% during the year ended December 31, 2007 compared to an average of 7.96% during the year ended December 31, 2006. The prime rate began to increase in the second half of 2004 and throughout 2005 and 2006 as the FRB began to raise short-term interest rates, and stood at 8.25% at December 31, 2006. In the last three months of 2007, the FRB began to decrease short-term interest rates. At December 31, 2007, the prime rate stood at 7.25%. Over half of the Bank's loans were tied to prime at December 31, 2007. The Company continues to utilize interest rate swaps and FHLBank advances that reprice frequently to manage overall interest rate risk. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information on the Company's interest rate risk management.

Non-GAAP Reconciliation:  
(Dollars in thousands)

		Year Ended December 31	
		2007	2006
\$	%	\$	%

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Reported Net Interest Income/Margin	\$	71,405	3.24%	\$	69,227	3.39%
Amortization of deposit broker origination fees		1,172	.05		1,777	.09
Net interest income/margin excluding impact of hedge accounting entries	\$	72,577	3.29%	\$	71,004	3.48%

For additional information on net interest income components, refer to "Average Balances, Interest Rates and Yields" table in this Annual Report on Form 10-K. 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 was \$5.5 million and \$5.5 million during the years ended December 31, 2007 and December 31, 2006, respectively. The allowance for loan losses decreased \$0.8 million, or 3.0%, to \$25.5 million at December 31, 2007 compared to \$26.3 million at December 31, 2006. Net charge-offs were \$6.3 million in 2007 versus \$3.7 million in 2006. The increases in charge-offs and foreclosed assets were due to general market conditions, and more specifically, housing supply, absorption rates and unique circumstances related to individual borrowers and projects. As properties were transferred into foreclosed assets, evaluations were made of the value of these assets with corresponding charge-offs as appropriate.

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 and/or requirements for an increase in loan loss provision expense. 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.

The Bank's allowance for loan losses as a percentage of total loans was 1.38% and 1.54% at December 31, 2007 and 2006, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at this time, based on recent internal and external reviews of the Company's loan portfolio and current economic conditions. Potential problem loans are included in management's consideration when determining the adequacy of the provision and allowance for loan losses.

#### Non-performing Assets

As a result of continued growth in the loan portfolio, changes in portfolio mix, 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 December 31, 2007, were \$55.9 million, up \$30.9 million from December 31, 2006. Non-performing assets as a percentage of total assets were 2.30% at December 31, 2007. Compared to December 31, 2006, non-performing loans increased \$15.3 million to \$35.5 million while foreclosed assets increased \$15.6 million to \$20.4 million. Commercial real estate, commercial and residential construction and business loans comprised \$33.2 million, or 94%, of the total \$35.5 million of non-performing loans at December 31, 2007. Commercial real estate, construction and business loans historically comprise the majority of non-performing loans.

Net charge-offs for the year ended December 31, 2007, were \$6.3 million as compared to \$3.7 million for the year ended December 31, 2006. The increases in charge-offs and foreclosed assets were due to general economic and market conditions, and more specifically, housing supply, absorption rates and unique circumstances related to individual borrowers and projects. As properties were transferred into foreclosed assets, evaluations were made of the

value of these assets with corresponding charge-offs as appropriate. The Company's allowance for loan losses was \$25.5 million and \$26.3 million at December 31, 2007 and 2006, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at this time, based on recent internal and external reviews of the Company's loan portfolio and current economic conditions. Potential problem loans are included in management's consideration when determining the adequacy of the provision and allowance for loan losses.

Non-performing Loans. Compared to December 31, 2006, non-performing loans increased \$15.3 million to \$35.5 million. Non-performing loan increases and decreases are described below.

Increases in non-performing loans in 2007 included:

- A \$10.3 million loan relationship, which is primarily secured by a condominium and retail historic rehabilitation development in St. Louis, Mo. This was originally included as a \$9.4 million relationship and has increased due to costs to complete construction. The project was completed during the first quarter of 2008 and the Company has begun marketing efforts to lease the condominium and retail spaces. The Company expects to receive Federal and State tax credits later in 2008, which should reduce the balance of this relationship to approximately \$5.0 million. The Company has obtained a recent appraisal that substantiates the value of the project. Because of the tax credits involved, the Company expects to foreclose on this property at some point in the future and hold this property for several years. The Company expects to remove this relationship from loans and hold it as a depreciating asset once the tax credit process is completed. Current projections by the Company indicate that a positive return on the investment is expected once the space is leased.
- A \$1.3 million loan relationship, which is secured by a restaurant building in northwest Arkansas. The Company has begun foreclosure on this property.
- A \$2.4 million loan relationship, which was described in the March 31, 2007, Quarterly Report on Form 10-Q. During the six months ended December 31, 2007, the original \$5.4 million relationship was reduced to \$2.4 million through the foreclosure and subsequent sale of the real estate collateral. At the time of the foreclosure on these real estate assets, there was no charge-off against the allowance for loan losses. The remaining \$2.4 million is secured by the borrower's ownership interest in a business. The borrower is pursuing options to pay off this loan.
- A \$5.7 million loan relationship, which is primarily secured by two office and retail historic rehabilitation developments. At the time this relationship was transferred to the Non-performing Loans category the Company recorded a write-down of \$240,000. Both of the projects are completed and the space in both cases is partially leased. The projects are located in southeast Missouri and southwest Missouri, respectively. The borrower is marketing the properties for sale; however, the Company has begun foreclosure proceedings in the event that the borrower is not successful in selling the properties.
- A \$1.9 million loan relationship, which is secured by partially-developed subdivision lots in northwest Arkansas. The Company has begun foreclosure proceedings.

At December 31, 2007, eight significant loan relationships accounted for \$27.7 million of the total non-performing loan balance of \$35.5 million. In addition to the five relationships noted above, three other loan relationships were previously included in Non-performing Loans and remained there at December 31, 2007. These relationships were described in the December 31, 2006, Annual Report on Form 10-K, and in previous Quarterly Reports on Form 10-Q. One of these relationships, a \$3.3 million loan on a nursing home in the State of Missouri, was paid off in the first quarter of 2008 upon the sale of the facility. The Company had previously recorded a charge to the allowance for loan losses regarding this relationship and recovered approximately \$500,000 to the allowance upon receipt of the loan payoff. The other two unrelated relationships totaled \$1.0 million and \$1.7 million, respectively. Both of these relationships are secured primarily by single-family houses and residential subdivision lots. The \$1.0 million relationship has been foreclosed upon and transferred to foreclosed assets at a book value of \$700,000 after a charge-off to the allowance for loan losses of \$320,000. The Company is in process of foreclosing on the \$1.7 million relationship and is currently determining what, if any, charge-off to the allowance for loan losses is needed regarding this relationship.

Two other significant relationships were both added to the Non-performing Loans category and subsequently transferred to foreclosed assets during the year ended December 31, 2007:

- A \$4.6 million loan relationship, described in the June 30, 2007, Quarterly Report on Form 10-Q, which is secured by two residential developments in the Kansas City, Mo., metropolitan area. At the time of the transfer to foreclosed assets, the asset was reduced to \$4.3 million through a charge-off to the allowance for loan losses.

- A \$1.5 million loan relationship, which was described in the June 30, 2007, Quarterly Report on Form 10-Q. During the quarter ended September 30, 2007, the loans in this relationship were transferred to foreclosed assets. At the time of the transfer, this relationship was reduced by \$538,000 through a charge-off against the allowance for loan losses.

One other significant relationship was included in the Non-performing Loans category at December 31, 2006, and subsequently transferred to foreclosed assets during the year ended December 31, 2007. This relationship involved a motel located in the State of Illinois. At December 31, 2007, this relationship was included in foreclosed assets at \$2.6 million. This motel was sold in the first quarter 2008 with no additional loss incurred by the Company.

Foreclosed Assets. Of the total \$20.4 million of foreclosed assets at December 31, 2007, foreclosed real estate totaled \$20.0 million and repossessed automobiles, boats and other personal property totaled \$410,000. Foreclosed assets increased \$15.6 million during the year ended December 31, 2007, from \$4.8 million at December 31, 2006, to \$20.4 million at December 31, 2007. During the year ended December 31, 2007, foreclosed assets increased primarily due to the addition of five significant relationships to the foreclosed assets category and the addition of several smaller relationships that involve houses that are completed and for sale or under construction, as well as developed subdivision lots, partially offset by the sale of similar houses and subdivision lots. These five significant relationships remain in foreclosed assets at December 31, 2007, and are described below.

At December 31, 2007, five separate relationships totaled \$13.1 million, or 65%, of the total foreclosed assets balance. These five relationships include:

- A \$2.6 million relationship, which involves a motel in the State of Illinois. As discussed above, the motel was sold in the first quarter 2008 at no additional loss to the Company.
- A \$3.1 million relationship, which involves residential developments in Northwest Arkansas. One of the developments has some completed houses and additional lots. The second development is comprised of completed duplexes and triplexes. A few sales of single-family houses have occurred and the remaining properties are being marketed for sale.
- A \$4.3 million loan relationship, which involves two residential developments in the Kansas City, Mo., metropolitan area. These two subdivisions are primarily comprised of developed lots with some additional undeveloped ground. The Company is marketing these projects and has seen some recent interest by prospective purchasers.
- A \$1.8 million relationship, which involves a residence and commercial building in the Lake of the Ozarks, Mo., area. The Company is marketing these properties for sale.
- A \$1.3 million relationship, which involves residential developments, primarily residential lots in three different subdivisions and undeveloped ground, in the Branson, Mo., area. The Company has been in contact with various developers to determine interest in the projects.

Potential Problem Loans. Potential problem loans increased \$16.7 million during the year ended December 31, 2007 from \$13.6 million at December 31, 2006 to \$30.3 million at December 31, 2007. Potential problem loans are loans which management has identified through routine internal review procedures as having possible credit problems that may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in non-performing assets.



During the year ended December 31, 2007, potential problem loans increased primarily due to the addition of six unrelated relationships totaling \$20.0 million to the Potential Problem Loans category. Four of these relationships involve residential construction and development loans. Two relationships are in Springfield, Mo., and total \$1.7 million and \$3.0 million, respectively; one relationship near Little Rock, Ark. totals \$4.8 million; and one relationship in the St. Louis area totals \$4.3 million. This St. Louis area relationship was foreclosed in the first quarter 2008. The Company recorded a loan charge-off of \$1.0 million at the time of transfer to foreclosed assets based upon updated valuations of the assets. The Company is pursuing collection efforts against the guarantors on this credit. The fifth relationship consists of a condominium development in Kansas City totaling \$3.2 million. Some sales have occurred during 2007, with the outstanding balance decreasing \$1.9 million in 2007. The sixth relationship consists of a retail center, improved commercial land and other collateral in the states of Georgia and Texas totaling \$2.9 million. During the first quarter of 2008, performance on the relationship improved and the Company obtained additional collateral.

At December 31, 2007, two other large unrelated relationships were included in the Potential Problem Loan category. Both of these relationships were included in the potential problem loan category at December 31, 2006. The first relationship totaled \$3.3 million at December 31, 2006, and was reduced to \$1.4 million at December 31, 2007, through the sale of houses and townhomes. The relationship is secured primarily by a retail center, developed and undeveloped residential subdivisions, and single-family houses being constructed for resale in the Springfield, Missouri, area. The second relationship totaled \$2.7 million and is secured primarily by a motel in the State of Florida. The motel is operating but payment performance has been slow at times. At December 31, 2007, these eight significant relationships described above accounted for \$24.1 million of the potential problem loan total.

#### Non-interest Income

Including the effects of the Company's hedge accounting entries recorded in 2007 and 2006 for certain interest rate swaps, non-interest income for the year ended December 31, 2007 was \$29.4 million compared with \$29.6 million for the year ended December 31, 2006. The \$213,000, or 0.7%, decrease in non-interest income was primarily the result of the impairment write-down in value of one available-for-sale Freddie Mac preferred stock security. This write-down totaled \$1.1 million. This security has an interest rate that resets to a market index every 24 months and currently yields a tax-equivalent interest rate of about 8.5-9.0%. The security has had unrealized gains and losses from time to time. These unrealized gains and losses were recorded directly to equity in prior periods, so this other-than-temporary write-down did not affect total equity. Throughout the first ten months of 2007, as expected, the fair value of the security increased as market interest rates fell. However, in November and December 2007 the value of this security declined sharply due to the credit and capital concerns faced by many financial services companies, including government-sponsored enterprises Freddie Mac and Fannie Mae. Freddie Mac and Fannie Mae have recently issued new perpetual preferred stock at higher yields than this security and that has also driven the value down for many of the previously issued preferred stocks. The Company has the ability to continue to hold this security in its portfolio for the foreseeable future and believes that the fair value of this security may recover from the current level in future periods, if and when credit and capital concerns subside for these government-sponsored enterprises.

Other items of non-interest income in 2007 increased \$879,000 compared to 2006, primarily as a result of higher revenue from commissions and deposit account charges, partially offset by lower fees on loans. For the year ended December 31, 2007, service charges on deposit accounts and ATM fees increased \$542,000, or 3.7%, compared to 2006 due to the increase in deposit accounts. During 2007, commission income from the Company's travel, insurance and investment divisions increased \$767,000, or 8.4%, compared to the same period in 2006. This increase was primarily in the travel division as a result of the acquisition of a St. Louis travel agency in the first quarter of 2007 and internal growth. Total late charges and fees on loans decreased \$605,000 in the year ended December 31, 2007, compared to the same period in 2006 due primarily to the early repayment of five unrelated loans that triggered total prepayment fees of \$532,000 in the year ended December 31, 2006. Although the Company does receive prepayment fees from time to time, it is difficult to forecast when and in what amounts these fees will be collected. Non-interest income increased \$1.6 million in the year ended December 31, 2007, and increased \$1.5 million in the year ended December 31, 2006, as a result of the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits. See "Item 6. - Selected Consolidated Financial Data - Restatement of Previously Issued Consolidated Financial Statements" for a discussion of the current and previously reported financial statements due to the Company's accounting change for certain interest rate swaps in 2005. Other income in 2007 and 2006 includes the net benefits realized on federal historic tax credits utilized by the Company in both 2007 and 2006. The Company expects to utilize federal historic tax credits in the future; however, the timing and amount of these credits will vary depending upon availability of the credits and ability of the Company to utilize the credits.

Non-GAAP Reconciliation  
(Dollars in thousands)

	Year Ended December 31, 2007		
	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	\$ 29,419	\$ 1,695	\$ 27,724
	Year Ended December 31, 2006		
	As Reported	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	\$ 29,632	\$ 1,853	\$ 27,779

## Non-Interest Expense

Total non-interest expense increased \$2.9 million, or 5.8%, from \$48.8 million in the year ended December 31, 2006, compared to \$51.7 million in the year ended December 31, 2007. The increase was primarily due to: (i) an increase of \$1.9 million, or 6.6%, in salaries and employee benefits; (ii) an increase of \$597,000, or 68.2%, in insurance expense, primarily FDIC deposit insurance; (iii) an increase of \$489,000, or 410%, in expense on foreclosed assets and (iv) smaller increases and decreases in other non-interest expense areas, such as occupancy and equipment expense, postage, advertising, telephone, legal and professional fees, and bank charges and fees related to additional correspondent relationships. The Company's efficiency ratio for the year ended December 31, 2007, was 51.28% compared to 49.37% in 2006. These efficiency ratios include the impact of the hedge accounting entries for certain interest rate swaps. Excluding the effects of these entries, the efficiency ratio for the full year 2007 was 51.55% compared to 49.41% in 2006. The Company's ratio of non-interest expense to average assets decreased from 2.23% for the year ended December 31, 2006, to 2.18% for the year ended December 31, 2007. As discussed in the Company's 2006 Annual Report on Form 10-K, changes were made to the Company's retirement plans in 2006. These changes resulted in a decrease of \$315,000 in expenses in the year ended December 31, 2007, compared to 2006.

In 2007, the Federal Deposit Insurance Corporation (FDIC) began to once again assess insurance premiums on insured institutions. Under the new pricing system, institutions in all risk categories, even the best rated, are charged an FDIC premium. Great Southern received a deposit insurance credit as a result of premiums previously paid. The Company's credit offset assessed premiums for the first half of 2007, but premiums were owed by the Company in the latter half of 2007. The Company incurred additional insurance expense of \$568,000 related to this in 2007, and the Company expects expense of approximately \$300,000 per quarter in subsequent quarters, with additional expense based upon deposit growth.

Due to the increases in levels of foreclosed assets, foreclosure-related expenses in 2007 were higher than 2006 by approximately \$489,000 (net of income received on foreclosed assets). As previously disclosed in the Company's filings for the fourth quarter and full year 2006, these periods included an expense item of \$783,000 (\$501,000 after tax), which was a non-cash write-off of unamortized issuance costs related to the redemption of the 9.0% Cumulative Trust Preferred Securities of Great Southern Capital Trust I.

The Company's increase in non-interest expense in 2007 compared to 2006 also related to the continued growth of the Company. During the fourth quarter of 2006, Great Southern completed its acquisition of a travel agency in Columbia, Mo., and opened banking centers in Lee's Summit, Mo. and Ozark, Mo. In March 2007, Great Southern acquired a travel agency in St. Louis, Mo., and in June 2007, opened a banking center in Springfield, Mo. As a result, in the year ended December 31, 2007, compared to the year ended December 31, 2006, non-interest expenses increased \$1.9 million related to the ongoing operations of these entities.

## Non-GAAP Reconciliation:

(Dollars in thousands)

Year Ended December 31,

	2007	2007		2006	2006	
	Non-Interest	Revenue	%	Non-Interest	Revenue	%
	Expense	Dollars*		Expense	Dollars*	
Efficiency Ratio	\$ 51,707	\$ 100,824	51.28%	\$ 48,807	\$ 98,859	49.37%
Amortization of deposit broker						
origination fees	---	1,172	(.61)	---	1,777	(.88)

Net change in fair value of interest rate swaps and related deposits	---	(1,695)	.88	---	(1,853)	.92
Efficiency ratio excluding impact of hedge accounting entries	\$ 51,707	\$ 100,301	51.55%	\$ 48,807	\$ 98,783	49.41%

\*Net interest income plus non-interest income.



The Company's total stockholders' equity was \$234.1 million, or 8.8% of total assets of \$2.66 billion at December 31, 2008, compared to equity of \$189.9 million, or 7.8% of total assets of \$2.43 billion at December 31, 2007. As of December 31, 2008, common stockholders' equity was \$178.5 million, or 6.7% of total assets, equivalent to a book value of \$13.34 per common share.

On December 5, 2008, the Company completed a transaction to participate in the U.S. Treasury's voluntary Capital Purchase Program. The Capital Purchase Program, a part of the Emergency Economic Stabilization Act of 2008, is designed to provide capital to healthy financial institutions, thereby increasing confidence in the banking industry and increasing the flow of financing to businesses and consumers. The Company received \$58.0 million from the U.S. Treasury through the sale of 58,000 shares of the Company's newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series A. The Company also issued to the U.S. Treasury a warrant to purchase 909,091 shares of common stock at \$9.57 per share. The amount of preferred shares sold represents approximately 3% of the Company's risk-weighted assets as of September 30, 2008. Through its preferred stock investment, the Treasury will receive a cumulative dividend of 5% per year for the first five years, or \$2.9 million per year, and 9% per year thereafter. The preferred shares are callable at 100% of the issue price, subject to consultation by the U.S. Treasury with the Company's primary federal regulator. In addition, for a period of the earlier of three years or until these preferred shares have been redeemed by the Company or divested by the Treasury, the Company has certain limitations on dividends that may be declared on its common or preferred stock and is prohibited from repurchasing shares of its common or other capital stock or any trust preferred securities issued by the Company.

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. On December 31, 2008, the Bank's Tier 1 risk-based capital ratio was 10.7%, total risk-based capital ratio was 11.9% and the Tier 1 leverage ratio was 7.8%. As of December 31, 2008, the Bank was "well capitalized" as defined by the Federal banking agencies' capital-related regulations. The FRB has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On December 31, 2008, the Company's Tier 1 risk-based capital ratio was 13.8%, total risk-based capital ratio was 15.1% and the Tier 1 leverage ratio was 10.1%. As of December 31, 2008, the Company was "well capitalized" under the capital ratios described above.

At December 31, 2008, the held-to-maturity investment portfolio included no gross unrealized losses and \$62,000 of gross unrealized gains.

The Company's primary sources of funds are customer 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.

At December 31, 2008 and February 26, 2009, the Company had these available secured lines and on-balance sheet liquidity:

	December 31, 2008	February 26, 2009
Federal Home Loan Bank line	238.8 million	\$239.3 million
Federal Reserve Bank line	151.8 million	\$130.5 million
Interest-Bearing and Non-Interest-Bearing Deposits	89.8 million	\$317.0 million
Unpledged Securities		



216.9	\$10.9
million	million

Statements of Cash Flows. During the years ended December 31, 2008, 2007 and 2006, 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, charges related to other-than-temporary impairments of investment securities, 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 sources of cash flows from operating activities. Operating activities provided cash flows of \$48.0 million, \$28.0 million and \$47.1 million during the years ended December 31, 2008, 2007 and 2006, respectively.

During the years ended December 31, 2008, 2007 and 2006, investing activities used cash of \$200.5 million, \$253.6 million and \$143.1 million, primarily due to the net increase of loans and the net purchases of investment securities 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, changes in short-term borrowings, proceeds from the issuance of preferred stock under the Treasury's CPP and changes in structured repurchase agreements, as well as the purchases of Company stock and dividend payments to stockholders. Financing activities provided cash flows of \$239.8 million, \$173.0 million and \$111.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Financing activities in the future are expected to primarily include changes in deposits, changes in FHLBank advances, changes in short-term borrowings and dividend payments to stockholders.

Dividends. During the year ended December 31, 2008, the Company declared dividends of \$0.72 per share and paid dividends of \$0.72 per share. During the year ended December 31, 2007, the Company declared dividends of \$0.68 per share (31.6% of net income per share) and paid dividends of \$0.66 per share (30.7% of net income per share). The Board of Directors meets regularly to consider the level and the timing of dividend payments. The dividend declared but unpaid as of December 31, 2008, was paid to shareholders on January 9, 2009. As a result of the issuance of preferred stock to the U.S. Treasury in December 2008, the Company paid a dividend of \$564,000 on February 17, 2009. Quarterly payments of \$725,000 will be due for the next five years, as long as the preferred stock is outstanding.

As a result of the issuance of preferred stock to the U.S. Treasury in December 2008, the Company paid a dividend of \$564,000 on February 17, 2009. Quarterly payments of \$725,000 will be due for the next five years, as long as the preferred stock is outstanding.

Common Stock Repurchases. The Company has been in various buy-back programs since May 1990. During the year ended December 31, 2008, the Company repurchased 21,200 shares of its common stock at an average price of \$19.19 per share and reissued 1,972 shares of Company stock at an average price of \$13.23 per share to cover stock option exercises. During the year ended December 31, 2007, the Company repurchased 342,377 shares of its common stock at an average price of \$25.57 per share and reissued 65,609 shares of Company stock at an average price of \$17.62 per share to cover stock option exercises.

Our participation in the Treasury's Capital Purchase Program (CPP) currently precludes us from purchasing shares of the Company's stock until the earlier of December 5, 2011 or our repayment of the CPP funds. Management has historically utilized stock buy-back programs from time to time as long as repurchasing the stock contributed to the overall growth of shareholder value. The number of shares of stock repurchased and the price 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 7A. 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. Since the Company uses laddered brokered deposits and FHLBank advances to fund a portion of its loan growth, the Company's assets tend to reprice more quickly than its liabilities.

#### 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 our 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 December 31, 2008, Great Southern's internal interest rate risk models indicate a one-year interest rate sensitivity gap that is negative. Generally, a rate increase by the FRB (which does not appear likely in the near term based on current economic conditions) would be expected to have an immediate negative impact on Great Southern's net interest income. As the Federal Funds rate is now very low, the Company's interest rate floors have been reached on most of its "prime rate" loans. In addition, Great Southern has elected to leave its "Great Southern Prime Rate" at 5.00% for those loans that are indexed to "Great Southern Prime" rather than "Wall Street Journal Prime." While these interest rate floors and prime rate adjustments have helped keep the rate on our loan portfolio higher in this very low interest rate environment, they will also reduce the positive effect to our loan rates when market interest rates, specifically the "prime rate," begin to increase. The interest rate on these loans will not increase until the loan floors are reached and the "Wall Street Journal Prime" interest rate exceeds 5.00%. The operating environment has not been normal and interest cost for deposits and borrowings have been and continue to be elevated because of abnormal credit, liquidity and competitive pricing pressures, therefore we expect the net interest margin will continue to be somewhat compressed.

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 potentially 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.

The Company has entered into interest-rate swap derivatives, primarily as an asset/liability management strategy, in order to hedge the change in the fair value from recorded fixed rate liabilities (long term fixed rate CDs). The terms of the swaps are carefully matched to the terms of the underlying hedged item and when the relationship is properly documented as a hedge and proven to be effective, it is designated as a fair value hedge. The fair market value of derivative financial instruments is based on the present value of future expected cash flows from those instruments discounted at market forward rates and are recognized in the statement of financial condition in the prepaid expenses and other assets or accounts payable and accrued expenses caption. Effective changes in the fair market value of the hedged item due to changes in the benchmark interest rate are similarly recognized in the statement of financial condition in the prepaid expenses and other assets or accounts payable and accrued expenses caption. Effective gains/losses are reported in interest expense and \$(931,000) and \$805,000 of ineffectiveness was recorded in income in the non-interest income caption for the years ended December 31, 2008 and 2007, respectively. Gains and losses on early termination of the designated fair value derivative financial 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 fair market value of the derivative financial instrument is recorded on the balance sheet as an asset or a liability (in prepaid expenses and other assets or accounts payable and accrued expenses) with the resultant gains and losses recognized in non-interest income.

At September 15, 2008, the Company had six SFAS No. 133 designated swaps with Lehman Brothers Special Financing, Inc. ("Lehman"). Since that date, four of these swaps have been terminated or matured. On September 15, 2008, Lehman filed for bankruptcy protection and hedge accounting was immediately terminated. The fair market value of the underlying hedged items (certificates of deposit) through September 15, 2008, is being amortized over the remaining life of the hedge period on a straight-line basis. The fair market value of the swaps as of September 15, 2008, included both assets and liabilities totaling a net asset of \$235,000. These swaps were valued using the income approach with observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single discounted present amount. The Level 2 inputs are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, volatilities and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. The Company has a netting agreement with Lehman and the collectability of the net asset is uncertain at this time. The Company has a valuation allowance of \$235,000 on the asset as of December 31, 2008.

The Company has entered into interest rate swap agreements with the objective of economically hedging against the effects of changes in the fair value of its liabilities for fixed rate brokered certificates of deposit 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.

At December 31, 2008, the notional amount of interest rate swaps outstanding was approximately \$11.5 million, all of which were in a net settlement receivable position. Subsequent to December 31, 2008, the remaining swaps were terminated. At December 31, 2007, the notional amount of interest rate swaps outstanding was approximately \$419.2 million. Of this amount, \$225.7 million consisted of swaps in a net settlement receivable position and \$193.5 million consisted of swaps in a net settlement payable position. The maturities of interest rate swaps outstanding at December

31, 2008 and 2007, in terms of notional amounts and their average pay and receive rates is discussed further in Note 15 of the Notes to Consolidated Financial Statements.

The following tables illustrate the expected maturities and repricing, respectively, of the Bank's financial instruments at December 31, 2008. These schedules do not reflect the effects of possible prepayments or enforcement of due-on-sale clauses. The tables are based on information prepared in accordance with generally accepted accounting principles.

## Maturities

December 31,

	2009	2010	2011	2012	2013	Thereafter	Total
	(Dollars in thousands)						
<b>Financial Assets:</b>							
Interest bearing deposits	\$ 970	---	---	---	---	---	\$ ---
Weighted average rate	0.02%	---	---	---	---	---	---
Available-for-sale equity securities	---	---	---	---	---	\$ 1,596	\$ 1,596
Weighted average rate	---	---	---	---	---	3.53%	3.53%
Available-for-sale debt securities(1)	---	\$ 376	\$ 5,850	\$ 267	\$ 4,402	\$ 635,187	\$ 646,072
Weighted average rate	---	5.63%	3.79%	3.88%	5.03%	5.34%	5.34%
Held-to-maturity securities	---	---	---	---	---	\$ 1,360	\$ 1,360
Weighted average rate	---	---	---	---	---	7.49%	7.49%
Adjustable rate loans	\$ 655,242	\$ 151,366	\$ 105,984	\$ 43,276	\$ 49,803	\$ 221,822	\$ 1,226,493
Weighted average rate	6.09%	5.45%	5.76%	5.17%	5.42%	5.69%	5.69%
Fixed rate loans	\$ 127,904	\$ 59,606	\$ 57,329	\$ 43,091	\$ 41,552	\$ 196,005	\$ 525,487
Weighted average rate	7.28%	7.91%	7.58%	8.26%	6.97%	7.61%	7.61%
Federal Home Loan Bank stock	---	---	---	---	---	\$ 8,333	\$ 8,333
Weighted average rate	---	---	---	---	---	3.00%	3.00%
<b>Total financial assets</b>	<b>\$ 784,116</b>	<b>\$ 211,348</b>	<b>\$ 169,163</b>	<b>\$ 86,634</b>	<b>\$ 95,757</b>	<b>\$ 1,064,303</b>	<b>\$ 2,411,313</b>
<b>Financial Liabilities:</b>							
Time deposits	\$ 790,443	\$ 307,692	\$ 218,932	\$ 39,740	\$ 3,179	\$ 22,801	\$ 1,382,787
Weighted average rate	3.27%	4.08%	4.31%	4.77%	4.62%	5.14%	5.14%
Interest-bearing demand	\$ 386,540	---	---	---	---	---	\$ 386,540
Weighted average rate	1.18%	---	---	---	---	---	---
Non-interest-bearing demand	\$ 138,701	---	---	---	---	---	\$ 138,701
Weighted average rate	---	---	---	---	---	---	---
Federal Home Loan Bank	\$ 24,821	\$ 4,978	\$ 2,239	\$ 2,934	\$ 225	\$ 85,275	\$ 119,492
Weighted average rate	1.29%	3.63%	6.29%	6.04%	5.81%	3.69%	3.69%
Short-term borrowings	\$ 298,629	---	---	---	---	---	\$ 298,629
Weighted average rate	1.35%	---	---	---	---	---	---
Structured repurchase agreements	---	---	---	---	---	\$ 50,000	\$ 50,000
Weighted average rate	---	---	---	---	---	4.34%	4.34%
Subordinated debentures	---	---	---	---	---	\$ 30,929	\$ 30,929
Weighted average rate	---	---	---	---	---	4.87%	4.87%
<b>Total financial liabilities</b>	<b>\$ 1,639,134</b>	<b>\$ 312,670</b>	<b>\$ 221,171</b>	<b>\$ 42,674</b>	<b>\$ 3,404</b>	<b>\$ 189,005</b>	<b>\$ 2,403,058</b>



- (1) Available-for-sale debt securities include approximately \$557 million of mortgage-backed securities and collateralized mortgage obligations which pay interest and principal monthly to the Company. Of this total, \$367 million represents securities that have variable rates of interest after a fixed interest period. These securities will experience rate changes at varying times over the next ten years, with \$107 million experiencing rate changes in the next two years. This table does not show the effect of these monthly repayments of principal or rate changes.

## Repricing

December 31,

	2009	2010	2011	2012	2013	Thereafter	Total	2008 Fair Value
	(Dollars in thousands)							
<b>Financial Assets:</b>								
Interest bearing deposits	\$ 970	---	---	---	---	---	\$ 970	\$ 970
Weighted average rate	0.02%	---	---	---	---	---	0.02%	
Available-for-sale equity securities	---	\$ ---	\$ ---	---	\$ ---	\$ 1,596	\$ 1,596	\$ 1,596
Weighted average rate	---	---	---	---	---	3.53%	3.53%	
Available-for-sale debt securities(1)	\$ 141,174	\$ 7,077	\$ 10,038	\$ 20,603	\$ 34,263	\$ 432,927	\$ 646,082	\$ 646,082
Weighted average rate	4.96%	4.85%	3.94%	5.33%	4.88%	5.48%	5.30%	
Hold-to-maturity securities	---	---	---	---	---	\$ 1,360	\$ 1,360	\$ 1,422
Weighted average rate	---	---	---	---	---	7.49%	7.49%	
Adjustable rate loans	\$ 1,173,151	\$ 18,648	\$ 25,221	\$ 5,485	\$ 3,610	\$ 1,378	\$ 1,227,493	\$ 1,237,721
Weighted average rate	5.80%	7.12%	6.69%	7.30%	6.59%	6.59%	5.85%	
Fixed rate loans	\$ 127,904	\$ 59,606	\$ 57,329	\$ 43,091	\$ 41,552	\$ 196,005	\$ 525,487	\$ 531,021
Weighted average rate	7.28%	7.91%	7.58%	8.26%	6.97%	7.61%	7.57%	
Federal Home Loan Bank stock	\$ 8,333	---	---	---	---	---	\$ 8,333	\$ 8,333
Weighted average rate	3.30%	---	---	---	---	---	3.30%	
Total financial assets	\$ 1,451,532	\$ 85,331	\$ 92,588	\$ 69,179	\$ 79,425	\$ 633,266	\$ 2,411,321	
<b>Financial Liabilities:</b>								
Time deposits(3)	\$ 801,941	\$ 307,692	\$ 214,317	\$ 39,740	\$ 3,179	\$ 15,918	\$ 1,382,787	\$ 1,403,908
Weighted average rate	3.25%	4.08%	4.32%	4.77%	4.62%	5.21%	3.67%	
Interest-bearing demand	\$ 386,540	---	---	---	---	---	\$ 386,540	\$ 386,540
Weighted average rate	1.18%	---	---	---	---	---	1.18%	
Non-interest-bearing demand(2)	---	---	---	---	---	\$ 138,701	\$ 138,701	\$ 138,701
Weighted average rate	---	---	---	---	---	---	---	
Federal Home Loan Bank advances	\$ 24,821	\$ 89,978	\$ 2,239	\$ 2,934	\$ 225	\$ 275	\$ 120,472	\$ 123,895
Weighted average rate	1.29%	3.68%	6.29%	6.04%	5.81%	5.54%	3.30%	
Short-term borrowings	\$ 298,629	---	---	---	---	---	\$ 298,629	\$ 298,629
Weighted average rate	1.35%	---	---	---	---	---	1.35%	
Structured repurchase agreements	\$ 50,000	---	---	---	---	---	\$ 50,000	\$ 56,674
Weighted average rate	4.34%	---	---	---	---	---	4.34%	
Subordinated debentures	\$ 30,929	---	---	---	---	---	\$ 30,929	\$ 30,929
Weighted average rate	4.87%	---	---	---	---	---	4.87%	
Total financial liabilities	\$ 1,592,860	\$ 397,670	\$ 216,556	\$ 42,674	\$ 3,404	\$ 154,894	\$ 2,408,058	
Periodic repricing GAP	\$ (141,328)	\$ (312,339)	\$ (123,968)	\$ 26,505	\$ 76,021	\$ 478,372	\$ 3,263	

cumulative repricing GAP                    \$ (141,328)   \$ (453,667)   \$ (577,635)   \$ (551,130)   \$ (475,109) \$ 3,263

- 
- (1) Available-for-sale debt securities include approximately \$557 million of mortgage-backed securities and collateralized mortgage obligations which pay interest and principal monthly to the Company. Of this total, \$367 million represents securities that have variable rates of interest after a fixed interest period. These securities will experience rate changes at varying times over the next ten years, with \$107 million experiencing rate changes in the next two years. This table does not show the effect of these monthly repayments of principal or rate changes.
  - (2) Non-interest-bearing demand is included in this table in the column labeled "Thereafter" since there is no interest rate related to these liabilities and therefore there is nothing to reprice.
  - (3) Time deposits include the effects of the Company's interest rate swaps on brokered certificates of deposit. These derivatives qualify for hedge accounting treatment.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders  
Great Southern Bancorp, Inc.  
Springfield, Missouri

We have audited the accompanying consolidated statements of financial condition of Great Southern Bancorp, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Southern Bancorp, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, in 2008 the Company changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Great Southern Bancorp, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2009, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/BKD, LLP

Springfield, Missouri  
March 16, 2009

Great Southern Bancorp, Inc.  
Consolidated Statements of Financial Condition  
December 31, 2008 and 2007  
(In Thousands, Except Per Share Data)

## Assets

	2008	2007
Cash	\$ 135,043	\$ 79,552
Interest-bearing deposits in other financial institutions	32,877	973
Cash and cash equivalents	167,920	80,525
Available-for-sale securities	647,678	425,028
Held-to-maturity securities	1,360	1,420
Mortgage loans held for sale	4,695	6,717
Loans receivable, net of allowance for loan losses of \$29,163 and \$25,459 at December 31, 2008 and 2007, respectively	1,716,996	1,813,394
Interest receivable	13,287	15,441
Prepaid expenses and other assets	14,179	14,904
Foreclosed assets held for sale, net	32,659	20,399
Premises and equipment, net	30,030	28,033
Goodwill and other intangible assets	1,687	1,909
Federal Home Loan Bank stock	8,333	13,557
Refundable income taxes	7,048	1,701
Deferred income taxes	14,051	8,704
Total assets	\$ 2,659,923	\$ 2,431,732

See Notes to Consolidated Financial Statements

## Liabilities and Stockholders' Equity

	2008	2007
<b>Liabilities</b>		
Deposits	\$ 1,908,028	\$ 1,763,146
Federal Home Loan Bank advances	120,472	213,867
Securities sold under reverse repurchase agreements with customers	215,261	143,721
Structured repurchase agreements	50,000	—
Short-term borrowings	83,368	73,000
Subordinated debentures issued to capital trust	30,929	30,929
Accrued interest payable	9,225	6,149
Advances from borrowers for taxes and insurance	334	378
Accounts payable and accrued expenses	8,219	10,671
<b>Total liabilities</b>	<b>2,425,836</b>	<b>2,241,861</b>
<b>Commitments and Contingencies</b>	<b>—</b>	<b>—</b>
<b>Stockholders' Equity</b>		
<b>Capital stock</b>		
Serial preferred stock, \$.01 par value; authorized 1,000,000 shares; issued and outstanding December 2008 – 58,000 shares	55,580	—
Common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding 2008 – 13,380,969 shares, 2007 – 13,400,197 shares	134	134
Common stock warrants; December 2008 – 909,091 shares	2,452	—
Additional paid-in capital	19,811	19,342
Retained earnings	156,247	170,933
Accumulated other comprehensive loss		
Unrealized loss on available-for-sale securities, net of income taxes of \$(74) and \$(290) at December 31, 2008 and 2007, respectively	(137)	(538)
<b>Total stockholders' equity</b>	<b>234,087</b>	<b>189,871</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,659,923</b>	<b>\$ 2,431,732</b>

Great Southern Bancorp, Inc.  
Consolidated Statements of Operations  
Years Ended December 31, 2008, 2007 and 2006  
(In Thousands, Except Per Share Data)

	2008	2007	2006
Interest Income			
Loans	\$ 119,829	\$ 142,719	\$ 133,094
Investment securities and other	24,985	21,152	16,987
	144,814	163,871	150,081
Interest Expense			
Deposits	60,876	76,232	65,733
Federal Home Loan Bank advances	5,001	6,964	8,138
Short-term borrowings and repurchase agreements	5,892	7,356	5,648
Subordinated debentures issued to capital trust	1,462	1,914	1,335
	73,231	92,466	80,854
Net Interest Income	71,583	71,405	69,227
Provision for Loan Losses	52,200	5,475	5,450
Net Interest Income After Provision for Loan Losses	19,383	65,930	63,777
Noninterest Income			
Commissions	8,724	9,933	9,166
Service charges and ATM fees	15,352	15,153	14,611
Net gains on loan sales	1,415	1,037	944
Net realized gains (losses) on sales of available-for-sale securities	44	13	(1)
Realized impairment of available-for-sale securities	(7,386)	(1,140)	—
Net gain on sale of fixed assets	191	48	167
Late charges and fees on loans	819	962	1,567
Change in interest rate swap fair value net of change in hedged deposit fair value	6,981	1,632	1,498
Other income	2,004	1,781	1,680
	28,144	29,419	29,632
Noninterest Expense			
Salaries and employee benefits	31,081	30,161	28,285
Net occupancy expense	8,281	7,927	7,645
Postage	2,240	2,230	2,178
Insurance	2,223	1,473	876
Advertising	1,073	1,446	1,201
Office supplies and printing	820	879	931
Telephone	1,396	1,363	1,387
Legal, audit and other professional fees	1,739	1,247	1,127
Expense on foreclosed assets	3,431	608	119
Write-off of trust preferred securities issuance costs	—	—	783
Other operating expenses	3,422	4,373	4,275

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

	55,706	51,707	48,807
Income (Loss) Before Income Taxes	(8,179)	43,642	44,602
Provision (Credit) for Income Taxes	(3,751)	14,343	13,859
Net Income (Loss)	(4,428)	29,299	30,743
Preferred Stock Dividends and Discount Accretion	242	—	—
Net Income (Loss) Available to Common Shareholders	\$ (4,670)	\$ 29,299	\$ 30,743
Earnings (Loss) Per Common Share			
Basic	\$ (.35)	\$ 2.16	\$ 2.24
Diluted	\$ (.35)	\$ 2.15	\$ 2.22

See Notes to Consolidated Financial Statements



Great Southern Bancorp, Inc.  
Consolidated Statements of Stockholders' Equity  
Years Ended December 31, 2008, 2007 and 2006  
(In Thousands, Except Per Share Data)

	Income (Loss)	Preferred Stock	Common Stock	Additional Stock Warrants	Paid-in Capital	Retained Earnings	Accumulated Other Comprehen- sive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2005	\$ —	\$ —	137	\$ —	\$ 17,781	\$ 138,921	\$ (4,037)	\$ —	\$ 152,802
Net income	30,743	—	—	—	—	30,743	—	—	30,743
Stock issued under Stock Option Plan	—	—	—	—	700	—	—	1,052	1,752
Dividends declared, \$.60 per share	—	—	—	—	—	(8,214)	—	—	(8,214)
Change in unrealized gain on available-for-sale securities, net of income taxes of \$1,194	2,217	—	—	—	—	—	2,217	—	2,217
Company stock purchased	—	—	—	—	—	—	—	(3,722)	(3,722)
Reclassification of treasury stock per Maryland law	—	—	—	—	—	(2,670)	—	2,670	—
Comprehensive income	\$ 32,960								
Balance, December 31, 2006	\$ —	—	137	—	18,481	158,780	(1,820)	—	175,578
Net income	29,299	—	—	—	—	29,299	—	—	29,299
Stock issued under Stock Option Plan	—	—	—	—	861	—	—	812	1,673
Common dividends declared, \$.68 per share	—	—	—	—	—	(9,205)	—	—	(9,205)
Change in unrealized loss on available-for-sale securities, net of income tax benefit of \$690	1,282	—	—	—	—	—	1,282	—	1,282

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Company stock purchased	—	—	—	—	—	—	—	(8,756)	(8,756)
Reclassification of treasury stock per Maryland law	—	—	(3)	—	—	(7,941)	—	7,944	—
Comprehensive income	\$ 30,581								
Balance, December 31, 2007	\$ —	—	134	—	19,342	170,933	(538)	—	189,871
Net loss	(4,428)	—	—	—	—	(4,428)	—	—	(4,428)
Preferred stock issued	—	55,548	—	—	—	—	—	—	55,548
Common stock warrants issued	—	—	—	2,452	—	—	—	—	2,452
Stock issued under Stock Option Plan	—	—	—	—	469	—	—	25	494
Common dividends declared, \$.72 per share	—	—	—	—	—	(9,633)	—	—	(9,633)
Preferred stock discount accretion	—	32	—	—	—	(32)	—	—	—
Preferred stock dividends accrued (5%)	—	—	—	—	—	(210)	—	—	(210)
Change in unrealized loss on available-for-sale securities, net of income tax benefit of \$216	401	—	—	—	—	—	401	—	401
Company stock purchased	—	—	—	—	—	—	—	(408)	(408)
Reclassification of treasury stock per Maryland law	—	—	—	—	—	(383)	—	383	—
Balance, December 31, 2008	\$ (4,027)	\$ 55,580	\$ 134	\$ 2,452	\$ 19,811	\$ 156,247	\$ (137)	\$ 0	\$ 234,087

See Notes to Consolidated Financial Statements

Great Southern Bancorp, Inc.  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2008, 2007 and 2006  
(In Thousands)

	2008	2007	2006
Operating Activities			
Net income (loss)	\$ (4,428)	\$ 29,299	\$ 30,743
Proceeds from sales of loans held for sale	94,935	77,234	71,964
Originations of loans held for sale	(91,914)	(73,035)	(68,076)
Items not requiring (providing) cash			
Depreciation	2,446	2,706	2,932
Amortization	383	374	380
Write-off of trust preferred securities issuance costs	—	—	783
Provision for loan losses	52,200	5,475	5,450
Net gains on loan sales	(1,415)	(1,037)	(944)
Net realized (gains) losses and impairment on available-for-sale securities	7,342	1,127	(1)
Gain on sale of premises and equipment	(191)	(48)	(167)
(Gain) loss on sale of foreclosed assets	1,456	(209)	(184)
Amortization of deferred income, premiums and discounts	(1,960)	(3,918)	(1,849)
Change in interest rate swap fair value net of change in hedged deposit fair value	(6,983)	(1,713)	(1,908)
Deferred income taxes	(5,562)	2,978	(365)
Changes in			
Interest receivable	2,154	(1,854)	(2,746)
Prepaid expenses and other assets	(2,698)	468	108
Accounts payable and accrued expenses	2,626	(10,453)	14,036
Income taxes refundable/payable	(5,347)	605	(3,012)
Net cash provided by operating activities	43,044	27,999	47,144

See Notes to Consolidated Financial Statements

Great Southern Bancorp, Inc.  
 Consolidated Statements of Cash Flows  
 Years Ended December 31, 2008, 2007 and 2006  
 (In Thousands)

	2008	2007	2006
Investing Activities			
Net change in loans	\$ 34,189	\$ (168,183)	\$ (127,762)
Purchase of loans	(12,030)	(4,649)	(47,508)
Proceeds from sale of student loans	634	3,052	2,314
Purchase of additional business units	—	(730)	(143)
Purchase of premises and equipment	(4,686)	(4,080)	(4,094)
Proceeds from sale of premises and equipment	434	106	2,177
Proceeds from sale of foreclosed assets	11,183	3,290	2,861
Capitalized costs on foreclosed assets	(567)	(156)	—
Proceeds from maturities, calls and repayments of held-to-maturity securities	60	50	40
Proceeds from sale of available-for-sale securities	85,242	4,415	26,679
Proceeds from maturities, calls and repayments of available-for-sale securities	206,902	482,153	295,188
Purchase of available-for-sale securities	(522,071)	(565,819)	(294,218)
(Purchase) redemption of Federal Home Loan Bank stock	5,224	(3,078)	1,378
Net cash used in investing activities	(195,486)	(253,629)	(143,088)

See Notes to Consolidated Financial Statements

Great Southern Bancorp, Inc.  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2008, 2007 and 2006  
(In Thousands)

	2008	2007	2006
Financing Activities			
Net increase (decrease) in certificates of deposit	\$ 285,044	\$ (8,400)	\$ 144,203
Net increase (decrease) in checking and savings accounts	(132,125)	62,017	6,038
Proceeds from Federal Home Loan Bank advances	503,000	1,568,000	952,200
Repayments of Federal Home Loan Bank advances	(596,395)	(1,533,303)	(976,465)
Net increase (decrease) in short-term borrowings	81,908	95,765	(12,602)
Proceeds from issuance of structured repurchase agreement	50,000	—	—
Proceeds from issuance of preferred stock and related common stock warrants to U.S. Treasury	58,000	—	—
Proceeds from issuance of trust preferred debentures	—	5,000	25,000
Repayment of trust preferred debentures	—	—	(17,250)
Advances to borrowers for taxes and insurance	(44)	(10)	155
Company stock purchased	(408)	(8,756)	(3,722)
Dividends paid	(9,637)	(8,981)	(7,947)
Stock options exercised	494	1,673	1,752
Net cash provided by financing activities	239,837	173,005	111,362
Increase (Decrease) in Cash and Cash Equivalents	87,395	(52,625)	15,418
Cash and Cash Equivalents, Beginning of Year	80,525	133,150	117,732
Cash and Cash Equivalents, End of Year	\$ 167,920	\$ 80,525	\$ 133,150

See Notes to Consolidated Financial Statements

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations and Operating Segments

Great Southern Bancorp, Inc. (GSBC or the “Company”) operates as a one-bank holding company. GSBC’s business primarily consists of the business of Great Southern Bank (the “Bank”), which provides a full range of financial services as well as travel and insurance services through the Bank’s other wholly owned subsidiaries to customers primarily in southwest and central Missouri. In addition, the Company serves the loan needs of customers through its loan origination offices in St. Louis and Kansas City, Missouri, and Rogers, Arkansas. Outside of Missouri, the states with the largest concentrations of loans by the Company are Arkansas and Kansas. The Company and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

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 attracting deposits from the general public, accepting brokered deposits and borrowing from the Federal Home Loan Bank 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.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

### Principles of Consolidation

The consolidated financial statements include the accounts of Great Southern Bancorp, Inc., its wholly owned subsidiary, the Bank, and the Bank’s wholly owned subsidiaries, Great Southern Real Estate Development Corporation, GSB One LLC (including its wholly owned subsidiary, GSB Two LLC), Great Southern Financial Corporation, Great Southern Community Development Corporation, GS, LLC, GSSC, LLC, GS-RE Holding, LLC and GS-RE Holding II, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

#### Reclassifications

Certain prior periods' amounts have been reclassified to conform to the 2008 financial statements presentation. These reclassifications had no effect on net income.

#### Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in common stock is based on a predetermined formula.

#### Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Held-to-maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

#### Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Nonbinding forward commitments to sell individual mortgage loans are generally obtained to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Fees received from borrowers to guarantee the funding of mortgage loans held for sale and fees paid to investors to ensure the ultimate sale of such mortgage loans are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

#### Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on nonaccrual status at 90 days past due and interest is considered a loss, unless the loan is well secured and in the process of collection.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

#### Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify consumer and one-to-four family residential loans for impairment disclosures.

#### Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expense on foreclosed assets.



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized using the straight-line and accelerated methods over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

### Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2008 and 2007.

### Goodwill and Intangible Assets

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Intangible assets are being amortized on the straight-line basis over periods ranging from three to seven years. Such assets are periodically evaluated as to the recoverability of their carrying value.

A summary of goodwill and intangible assets is as follows:

	2008	December 31, (In Thousands)	2007
Goodwill – Branch acquisitions	\$	379	\$ 379
Goodwill – Travel agency acquisitions		875	875
Deposit intangibles		314	401
Noncompete agreements		119	254
	\$	1,687	\$ 1,909

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

### Loan Servicing and Origination Fee Income

Loan servicing income represents fees earned for servicing real estate mortgage loans owned by various investors. The fees are generally calculated on the outstanding principal balances of the loans serviced and are recorded as income when earned. Loan origination fees, net of direct loan origination costs, are recognized as income using the level-yield method over the contractual life of the loan.

### Stockholders' Equity

At the 2004 Annual Meeting of Stockholders, the Company's stockholders approved the Company's reincorporation to the State of Maryland. This reincorporation was completed in June 2004. 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 Company's consolidated statements of financial condition reflects this change. The cost of shares purchased by the Company has been allocated to common stock and retained earnings balances.

### Earnings Per Share

Basic earnings per share is computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Earnings per share (EPS) were computed as follows:

	2008	2007	2006
	(In Thousands, Except Per Share Data)		
Net income (loss)	\$ (4,428)	\$ 29,299	\$ 30,743
Net income (loss) available-to-common shareholders	\$ (4,670)	\$ 29,299	\$ 30,743
Average common shares outstanding	13,381	13,566	13,697
Average common share stock options and warrants outstanding	N/A	88	128
Average diluted common shares	13,381	13,654	13,825
Earnings (loss) per common share – basic	\$ (0.35)	\$ 2.16	\$ 2.24
Earnings (loss) per common share – diluted	\$ (0.35)	\$ 2.15	\$ 2.22



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Because of the Company's loss from continuing operations, no potential options to purchase shares of common stock or common stock warrants were included in the calculation of diluted earnings per share for the year ended December 31, 2008. Options to purchase 386,015 and 318,695 shares of common stock were outstanding during the years ended December 31, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share for that year because the options' exercise price was greater than the average market price of the common shares.

#### Stock Option Plans

The Company has stock-based employee compensation plans, which are described more fully in Note 19. 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 years ended December 31, 2008, 2007 and 2006, share-based compensation expense totaling \$468,000, \$518,000 and \$480,000, respectively, has been included in salaries and employee benefits expense in the consolidated statements of operations.

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. Prior to 2006, no stock-based employee compensation cost was reflected in the consolidated statements of operations, as all options granted had an exercise price at least equal to the market value of the underlying common stock on the grant date.

On December 31, 2005, the Board of Directors of the Company approved the accelerated vesting of certain outstanding out-of-the-money unvested options (Options) to purchase shares of the Company's common stock held by the Company's officers and employees. Options to purchase 183,935 shares which would otherwise have vested from time to time over the next five years became immediately exercisable as a result of this action. The accelerated Options had a weighted average exercise price of \$31.49. The closing market price on December 30, 2005, was \$27.61. The Company also placed a restriction on the sale or other transfer of shares (including pledging the shares as collateral) acquired through the exercise of the accelerated Options prior to the original vesting date. With the acceleration of these Options, the compensation expense, net of taxes, that was recognized in the Company's income statements for 2006, 2007 and 2008 was reduced by approximately \$267,000 for each year. The Company estimates that, with the acceleration of these Options, the compensation expense, net of taxes, that will be recognized in its income statement for 2009 and 2010, will be reduced by approximately \$238,000 and \$103,000, respectively. The accelerated Options represent approximately 41% of the unvested Company options and 27% of the total of all outstanding Company options.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

### Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted of interest-bearing deposits in other financial institutions. At December 31, 2008, nearly all of the interest-bearing deposits were uninsured, with nearly all of these balances held at the Federal Home Loan Bank.

### Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

### Interest Rate Swaps

The Company enters into interest-rate swap derivatives, primarily as an asset/liability management strategy, in order to hedge the change in the fair value from recorded fixed rate liabilities (long-term fixed rate CDs). The terms of the swaps are carefully matched to the terms of the underlying hedged item and when the relationship is properly documented as a hedge and proven to be effective, it is designated as a fair value hedge. The fair market value of derivative financial instruments is based on the present value of future expected cash flows from those instruments discounted at market forward rates and are recognized in the statement of financial condition in the prepaid expenses and other assets or accounts payable and accrued expenses caption. Effective changes in the fair market value of the hedged item due to changes in the benchmark interest rate are similarly recognized in the statement of financial condition in the prepaid expenses and other assets or accounts payable and accrued expenses caption. Effective gains/losses are reported in interest expense and any ineffectiveness is recorded in income in the noninterest income caption. Gains and losses on early termination of the designated fair value derivative financial 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 fair market value of the derivative financial instrument is recorded on the balance sheet as an asset or a liability (in prepaid expenses and other assets or accounts payable and accrued expenses) with the resultant gains and losses recognized in noninterest income.

### Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2008 and 2007, respectively, was \$31,396,000 and \$32,463,000.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations. SFAS No. 141(revised) retains the fundamental requirements in Statement 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. SFAS No. 141 (revised) applies to business combinations occurring after January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51. SFAS No. 160 requires that a noncontrolling interest in a subsidiary be accounted for as equity in the consolidated statement of financial position and that net income include the amounts for both the parent and the noncontrolling interest, with a separate amount presented in the income statement for the noncontrolling interest share of net income. SFAS No. 160 also expands the disclosure requirements and provides guidance on how to account for changes in the ownership interest of a subsidiary. SFAS No. 160 is effective for the Company on January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company's financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position No. 157-2. The staff position delays the effective date of SFAS No. 157, Fair Value Measurements (which was adopted by the Company on January 1, 2008) for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay was intended to allow additional time to consider the effect of various implementation issues with regard to the application of SFAS No. 157. This staff position deferred the effective date of SFAS No. 157 to January 1, 2009, for items within the scope of the staff position and is not expected to have a material effect on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities intended to improve the transparency of financial reporting. Under SFAS No. 161, entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 effective January 1, 2009. The adoption of this standard is not anticipated to have a material effect on the Company's financial position or results of operations.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States (the GAAP hierarchy). The FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this Statement to achieve that result. SFAS No. 162 is effective sixty days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The adoption of this standard is not anticipated to have a material effect on the Company's financial position or results of operations.

In June 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Disclosure of Certain Loss Contingencies—an amendment of FASB Statements No. 5 and 141(R). The purpose of the proposed statement is intended to improve the quality of financial reporting by expanding disclosures required about certain loss contingencies. Investors and other users of financial information have expressed concerns that current disclosures required in SFAS No. 5, Accounting for Contingencies, do not provide sufficient information in a timely manner to assist users of financial statements in assessing the likelihood, timing, and amount of future cash flows associated with loss contingencies. If approved as written, this proposed Statement would expand disclosures about certain loss contingencies in the scope of SFAS No. 5 or SFAS No. 141 (revised 2007), Business Combinations, and would be effective for fiscal years ending after December 15, 2008, and interim and annual periods in subsequent fiscal years. The FASB continues to deliberate this proposed standard at this time.

In June 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities—an amendment of FASB Statement No. 133. The purpose of the proposed Statement is intended to simplify hedge accounting resulting in increased comparability of financial results for entities that apply hedge accounting. Specifically, the proposed statement would eliminate the multiple methods of hedge accounting currently being used for the same transaction. It also would require an entity to designate all risks as the hedged risk (with certain exceptions) in the hedged item or transaction, thus better reflecting the economics of such items and transactions in the financial statements. Additional objectives of the proposed Statement are to: simplify accounting for hedging activities; improve the financial reporting of hedging activities to make the accounting model and associated disclosures more useful and easier to understand for users of financial statements; resolve major practice issues related to hedge accounting that have arisen under Statement 133, Accounting for Derivative Instruments and Hedging Activities; and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. If approved as written, the proposed Statement would require application of the amended hedging requirements for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years. The FASB continues to deliberate this proposed standard at this time.

In August 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Earnings per Share—an amendment of FASB Statement No. 128. The FASB is issuing this proposed Statement as part of a joint project with the International Accounting Standards Board (IASB). The FASB and the IASB undertook that project to eliminate differences between

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

FASB Statement No. 128, Earnings per Share, and IAS 33, Earnings per Share, in ways that also would clarify and simplify the earnings per share (EPS) computation. This proposed Statement proposes amendments to Statement 128 that would improve the comparability of EPS because the denominator used to compute EPS under Statement 128 would be the same as the denominator used to compute EPS under IAS 33, with limited exceptions. The FASB continues to deliberate this proposed standard at this time.

In October 2008, the FASB issued FASB Staff Position No. 157-3, Determining the Fair Value of an Asset When the Market for That Asset Is Not Active. FSP 157-3 clarifies how Statement of Financial Accounting Standards (SFAS) No. 157 "Fair Value Measurements" (SFAS 157) should be applied when valuing securities in markets that are not active and illustrates how an entity would determine fair value in this circumstance. The FSP states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management's judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction would be acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. The adoption of FSP 157-3, effective upon issuance, did not impact the Company's financial position or results of operations.

In October 2008, the FASB issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, Subsequent Events. The objective of this proposed Statement is to establish general standards of accounting for and disclosure of events that occur subsequent to the balance sheet date but before financial statements are issued or are available to be issued. In particular, this proposed Statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity would evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity would recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity would make about events or transactions that occurred after the balance sheet date. The FASB continues to deliberate this proposed standard at this time.

In December 2008, the FASB issued FASB Staff Position No. 140-4 and FIN 46(R)-8, Disclosure by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. This FSP amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require public entities to provide additional disclosures about transfers of financial assets and amends FIN 46(R), Consolidation of Variable Interest Entities, to require public entities to provide additional disclosures about their involvement in variable interest entities and certain special purpose entities. This FSP was effective for the first reporting period ending after December 15, 2008. The Company has not engaged in these types of transfers of financial assets; therefore, no additional disclosures were required.



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

In January 2009, the FASB issued proposed FASB Staff Position No. 107-b and APB 28-a, Interim Disclosures about Fair Value of Financial Instruments. This proposed FSP would amend FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also would amend APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. This FSP, if adopted as it is currently written, is effective for interim and annual reporting periods ending after March 15, 2009.

In February 2009, the FASB decided to reexpose proposed FASB Staff Position No. 157-c, Measuring Liabilities under FASB Statement No. 157. This proposed FSP would clarify the principles in FASB Statement No. 157, Fair Value Measurements, on the measurement of liabilities. This FSP, if adopted as it is currently written, will be applied on a prospective basis effective on the beginning of the period that includes the issuance date of the FSP.

In March 2008, the FASB issued proposed FSP FAS 132(R)-a, Employers' Disclosures about Postretirement Benefit Plan Assets. In December 2008, the FASB issued the final FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP is the result of FASB's redeliberations of that proposed FSP. The provisions of this FSP only apply to single-employer defined benefit plans; the Company participates in a multi-employer defined benefit pension plan. Therefore, the requirements of this FSP will not affect the consolidated financial condition or results of operations of the Company, or the related disclosures about plan assets.

Note 2: Investments in Debt and Equity Securities

The amortized cost and approximate fair values of securities classified as available-for-sale were as follows:

	Amortized Cost	December 31, 2008		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
U.S. government agencies	\$ 34,968	\$ 32	\$ 244	\$ 34,756
Collateralized mortgage obligations	73,976	585	2,647	71,914
Mortgage-backed securities	480,349	6,029	1,182	485,196
States and political subdivisions	55,545	107	2,549	53,103
Corporate bonds	1,500	—	295	1,205
Equity securities	1,552	—	48	1,504
	\$ 647,890	\$ 6,753	\$ 6,965	\$ 647,678

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

	Amortized Cost	December 31, 2007		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
U.S. government agencies	\$ 126,117	\$ 53	\$ 375	\$ 125,795
Collateralized mortgage obligations	39,769	214	654	39,329
Mortgage-backed securities	183,023	1,030	916	183,137
States and political subdivisions	62,572	533	453	62,652
Corporate bonds	1,501	—	25	1,476
Equity securities	12,874	4	239	12,639
	\$ 425,856	\$ 1,834	\$ 2,662	\$ 425,028

Additional details of the Company's collateralized mortgage obligations and mortgage-backed securities at December 31, 2008, are described as follows:

	December 31, 2008			Approximate Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(In Thousands)				
Collateralized Mortgage Obligations				
FHLMC Fixed	\$ 12,691	\$ 403	\$ 113	\$ 12,981
GNMA Fixed	48,817	182	—	48,999
Total Agency	61,508	585	113	61,980
Nonagency	12,468	—	2,534	9,934
	\$ 73,976	\$ 585	\$ 2,647	\$ 71,914

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
(In Thousands)				
Mortgage-backed securities:				
FHLMC Fixed	\$ 53,137	\$ 1,279	\$ 5	\$ 54,411
FHLMC Hybrid ARM	188,545	1,559	369	189,735
Total FHLMC	241,682	2,838	374	244,146
FNMA Fixed	40,141	1,561	—	41,702
FNMA Hybrid ARM	175,410	1,583	616	176,378
Total FNMA	215,551	3,144	616	218,080
GNMA Fixed	14,441	30	—	14,471
GNMA Hybrid ARM	8,675	17	192	8,499
Total GNMA	23,116	47	192	22,970
	\$ 480,349	\$ 6,029	\$ 1,182	\$ 485,196
Total Fixed	\$ 107,719	\$ 2,870	\$ 5	\$ 110,584
Total Hybrid ARM	372,630	3,159	1,177	374,612
	\$ 480,349	\$ 6,029	\$ 1,182	\$ 485,196

The amortized cost and fair value of available-for-sale securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Approximate Fair Value
(In Thousands)		
One year or less	\$ —	\$ —
After one through five years	924	931
After five through ten years	38,315	38,071
After ten years	52,774	50,062
Securities not due on a single maturity date	554,325	557,110
Equity securities	1,552	1,504
	\$ 647,890	\$ 647,678



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The amortized cost and approximate fair values of securities classified as held-to-maturity were as follows:

	Amortized Cost	December 31, 2008		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In Thousands)		
States and political subdivisions	\$ 1,360	\$ 62	\$ 0	\$ 1,422

	Amortized Cost	December 31, 2007		Approximate Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
		(In Thousands)		
States and political subdivisions	\$ 1,420	\$ 88	\$ 0	\$ 1,508

The held-to-maturity securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Approximate Fair Value
	(In Thousands)	
After one through five years	\$ —	\$ —
After five through ten years	1,260	1,315
After ten years	100	107
	\$ 1,360	\$ 1,422

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The amortized cost and approximate fair values of securities pledged as collateral was as follows at December 31, 2008 and 2007:

	2008		2007	
	Amortized Cost	Approximate Fair Value (In Thousands)	Amortized Cost	Approximate Fair Value
Public deposits	\$ 140,452	\$ 140,660	\$ 194,889	\$ 194,401
Collateralized borrowing accounts	222,307	220,755	163,989	163,941
Structured repurchase agreements	57,251	57,412	—	—
Federal Home Loan Bank advances	2,782	2,893	47,038	46,998
Interest rate swaps and treasury, tax and loan accounts	3,021	2,965	4,779	4,770
	\$ 425,813	\$ 424,685	\$ 410,695	\$ 410,110

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2008 and 2007, respectively, was approximately \$222,228,000 and \$204,056,000 which is approximately 34.24% and 47.9% of the Company's available-for-sale and held-to-maturity investment portfolio, respectively.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these debt securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. During 2008, the Company determined that the impairment of certain available-for-sale equity securities with an original cost of \$8.4 million had become other than temporary. Consequently, the Company recorded a \$7.4 million pre-tax charge to income during 2008. This total charge included \$5.7 million related to Fannie Mae and Freddie Mac preferred stock. During 2007, the Company determined that the impairment of certain available-for-sale equity securities with an original cost of \$5.3 million had become other than temporary. Consequently, the Company recorded a \$1.1 million pre-tax charge to income during 2008.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2008 and 2007:

Description of Securities	2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. government agencies	\$ 29,756	\$ (244)	\$ —	\$ —	\$ 29,756	\$ (244)
Mortgage-backed securities	129,048	(1,010)	8,479	(172)	137,527	(1,182)
Collateralized mortgage obligations	3,609	(232)	10,063	(2,415)	13,672	(2,647)
State and political subdivisions	37,491	(1,739)	2,124	(810)	39,615	(2,549)
Corporate bonds	440	(60)	766	(235)	1,206	(295)
Equity securities	—	—	452	(48)	452	(48)
	\$ 200,344	\$ (3,285)	\$ 21,884	\$ (3,680)	\$ 222,228	\$ (6,965)

  

Description of Securities	2007					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. government agencies	\$ 43,418	\$ (80)	\$ 13,524	\$ (295)	\$ 56,942	\$ (375)
Mortgage-backed securities	22,498	(100)	62,817	(816)	85,315	(916)
Collateralized mortgage obligations	11,705	(154)	18,238	(500)	29,943	(654)
State and political subdivisions	23,398	(421)	2,216	(32)	25,614	(453)
Corporate bonds	1,476	(25)	—	—	1,476	(25)
Equity securities	4,766	(239)	—	—	4,766	(239)
	\$ 107,261	\$ (1,019)	\$ 96,795	\$ (1,643)	\$ 204,056	\$ (2,662)

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 3: Other Comprehensive Income (Loss)

	2008	2007	2006
	(In Thousands)		
Unrealized gain (loss) on available-for-sale securities, net of income taxes of \$(2,354) for December 31, 2008; \$296 for December 31, 2007; \$1,194 for December 31, 2006	\$ (4,371)	\$ 549	\$ 2,217
Less reclassification adjustment for gain (loss) included in net income, net of income taxes of \$(2,570) for December 31, 2008; \$(394) for December 31, 2007; \$0 for December 31, 2006	(4,772)	(733)	—
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes	\$ 401	\$ 1,282	\$ 2,217

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, 2008 and 2007, included:

	2008	2007
	(In Thousands)	
One-to-four family residential mortgage loans	\$ 222,100	\$ 185,253
Other residential mortgage loans	127,122	87,177
Commercial real estate loans	477,551	471,573
Other commercial loans	139,591	207,059
Industrial revenue bonds	59,413	61,224
Construction loans	604,965	919,059
Installment, education and other loans	177,480	154,015
Prepaid dealer premium	13,917	10,759
Discounts on loans purchased	(4)	(6)
Undisbursed portion of loans in process	(73,855)	(254,562)
Allowance for loan losses	(29,163)	(25,459)
Deferred loan fees and gains, net	(2,121)	(2,698)
	\$ 1,716,996	\$ 1,813,394



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Transactions in the allowance for loan losses were as follows:

	2008	2007 (In Thousands)	2006
Balance, beginning of year	\$ 25,459	\$ 26,258	\$ 24,549
Provision charged to expense	52,200	5,475	5,450
Loans charged off, net of recoveries of \$4,531 for 2008, \$2,595 for 2007 and \$2,500 for 2006	(48,496)	(6,274)	(3,741)
Balance, end of year	\$ 29,163	\$ 25,459	\$ 26,258

The weighted average interest rate on loans receivable at December 31, 2008 and 2007, was 6.35% and 7.58%, respectively.

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of loans serviced for others were \$87,104,000 and \$66,013,000 at December 31, 2008 and 2007, respectively. In addition, available lines of credit on these loans were \$31,463,000 and \$25,815,000 at December 31, 2008 and 2007, respectively.

Gross impaired loans totaled approximately \$45,569,000 and \$35,475,000 at December 31, 2008 and 2007, respectively. An allowance for loan losses of \$3,720,000 and \$2,583,000 relates to impaired loans of \$34,263,000 and \$10,234,000 at December 31, 2008 and 2007, respectively. There were \$11,306,000 of impaired loans at December 31, 2008, and \$25,241,000 of impaired loans at December 31, 2007, without a related allowance for loan losses assigned.

Interest of approximately \$1,122,000, \$1,097,000 and \$722,000 was received on average impaired loans of approximately \$33,596,000, \$31,757,000 and \$22,630,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Interest of approximately \$2,874,000, \$2,659,000 and \$1,954,000 would have been recognized on an accrual basis during the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, accruing loans delinquent 90 days or more totaled approximately \$318,000 and \$196,000, respectively. Nonaccruing loans at December 31, 2008 and 2007, were approximately \$32,884,000 and \$35,279,000, respectively.

Certain of the Bank's real estate loans are pledged as collateral for borrowings as set forth in Notes 7 and 9.

Great Southern Bancorp, Inc.  
 Notes to Consolidated Financial Statements  
 December 31, 2008, 2007 and 2006

Certain directors and executive officers of the Company and the Bank are customers of and had transactions with the Bank in the ordinary course of business. Except for the interest rates on loans secured by personal residences, in the opinion of management, all loans included in such transactions were made on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties. Generally, residential first mortgage loans and home equity lines of credit to all employees and directors have been granted at interest rates equal to the Bank's cost of funds, subject to annual adjustments in the case of residential first mortgage loans and monthly adjustments in the case of home equity lines of credit. At December 31, 2008 and 2007, loans outstanding to these directors and executive officers are summarized as follows:

	December 31,	
	2008	2007
	(In Thousands)	
Balance, beginning of year	\$ 28,879	\$ 20,205
New loans	21,465	24,114
Payments	(21,626)	(15,440)
Balance, end of year	\$ 28,718	\$ 28,879

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, were as follows:

	December 31,	
	2008	2007
	(In Thousands)	
Land	\$ 10,933	\$ 8,475
Buildings and improvements	21,490	20,788
Furniture, fixtures and equipment	23,650	22,719
	56,073	51,982
Less accumulated depreciation	26,043	23,949
	\$ 30,030	\$ 28,033

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 6: Deposits

Deposits are summarized as follows:

	Weighted Average Interest Rate	December 31, 2008	December 31, 2007
		(In Thousands, Except Interest Rates)	
Noninterest-bearing accounts	—\$	138,701	\$ 166,231
Interest-bearing checking and savings accounts	1.18% - 2.75%	386,540	491,135
		525,241	657,366
Certificate accounts	0% - 1.99%	38,987	598
	2% - 2.99%	205,426	22,850
	3% - 3.99%	446,799	93,717
	4% - 4.99%	646,458	470,718
	5% - 5.99%	42,847	497,877
	6% - 6.99%	869	10,394
	7% and above	186	374
		1,381,572	1,096,528
Interest rate swap fair value adjustment		1,215	9,252
		\$ 1,908,028	\$ 1,763,146

The weighted average interest rate on certificates of deposit was 3.67% and 4.83% at December 31, 2008 and 2007, respectively.

The aggregate amount of certificates of deposit originated by the Bank in denominations greater than \$100,000 was approximately \$152,745,000 and \$167,313,000 at December 31, 2008 and 2007, respectively. The Bank utilizes brokered deposits as an additional funding source. The aggregate amount of brokered deposits, which are primarily in denominations of \$100,000 or more, was approximately \$974,490,000 and \$674,609,000 at December 31, 2008 and 2007, respectively.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

At December 31, 2008, scheduled maturities of certificates of deposit were as follows (in thousands):

	Retail	Brokered	Total
2009	\$ 347,223	\$ 442,005	\$ 789,228
2010	47,436	260,256	307,692
2011	4,543	214,389	218,932
2012	3,491	36,249	39,740
2013	3,179	—	3,179
Thereafter	1,210	21,591	22,801
	\$ 407,082	\$ 974,490	\$ 1,381,572

A summary of interest expense on deposits is as follows:

	2008	2007	2006
	(In Thousands)		
Checking and savings accounts	\$ 8,370	\$ 16,043	\$ 12,679
Certificate accounts	52,616	60,295	53,145
Early withdrawal penalties	(110)	(106)	(91)
	\$ 60,876	\$ 76,232	\$ 65,733

Note 7: Advances From Federal Home Loan Bank

Advances from the Federal Home Loan Bank consisted of the following:

Due In	December 31, 2008			December 31, 2007	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	
	(In Thousands, Except Interest Rates)				
2008	\$ —	—%	93,395		4.29%
2009	24,821	1.29	24,821		5.10
2010	4,978	3.63	4,978		5.69
2011	2,239	6.29	2,239		6.29
2012	2,934	6.04	2,934		6.04
2013	225	5.81	225		5.81
2014 and thereafter	85,275	3.69	85,275		3.69

\$	120,472	3.30	\$	213,867	4.22
----	---------	------	----	---------	------

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Included in the Bank's FHLB advances is a \$30,000,000 advance with a maturity date of March 29, 2017. The interest rate on this advance is 4.07%. The advance has a call provision that allows the Federal Home Loan Bank of Des Moines to call the advance quarterly.

Included in the Bank's FHLB advances is a \$25,000,000 advance with a maturity date of December 7, 2016. The interest rate on this advance is 3.81%. The advance has a call provision that allows the Federal Home Loan Bank of Des Moines to call the advance quarterly.

Included in the Bank's FHLB advances is a \$30,000,000 advance with a maturity date of November 24, 2017. The interest rate on this advance is 3.20%. The advance has a call provision that allows the Federal Home Loan Bank of Des Moines to call the advance quarterly.

The Bank has pledged FHLB stock, investment securities and first mortgage loans free of pledges, liens and encumbrances as collateral for outstanding advances. Investment securities with approximate carrying values of \$2,893,000 and \$46,998,000, respectively, were specifically pledged as collateral for advances at December 31, 2008 and 2007. Loans with carrying values of approximately \$606,362,000 and \$520,005,000 were pledged as collateral for outstanding advances at December 31, 2008 and 2007, respectively.

#### Note 8: Short-Term Borrowings

Short-term borrowings are summarized as follows:

	December 31,	
	2008	2007
	(In Thousands)	
Federal Reserve Term Auction Facility (see Note 9)	\$ 83,000	\$ 50,000
Note payable – Kansas City Equity Fund	368	—
Overnight borrowings	—	23,000
Short-term borrowings	83,368	73,000
Securities sold under reverse repurchase agreements	215,261	143,721
	\$ 298,629	\$ 216,721

The Bank enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the statements of financial condition. The dollar amount of securities underlying the agreements remains in the asset accounts. Securities underlying the agreements are being held by the Bank during the agreement period. All agreements are written on a one-month or less term.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Short-term borrowings had weighted average interest rates of 1.35% and 3.75% at December 31, 2008 and 2007, respectively. Short-term borrowings averaged approximately \$234,250,000 and \$170,946,000 for the years ended December 31, 2008 and 2007, respectively. The maximum amounts outstanding at any month end were \$298,262,000 and \$216,721,000, respectively, during those same periods.

Note 9: Federal Reserve Bank Borrowings

The Bank has a potentially available \$215,265,000 line of credit under a borrowing arrangement with the Federal Reserve Bank at December 31, 2008. The line is secured primarily by commercial loans.

In December 2007, the Federal Reserve established a temporary Term Auction Facility (TAF). Under the TAF program, the Federal Reserve auctions term funds to depository institutions against the collateral that can be used to secure loans at the discount window. All depository institutions that are judged to be in generally sound financial condition by their local Reserve Bank and that are eligible to borrow under the primary credit discount window program are eligible to participate in TAF auctions. All advances must be fully collateralized. Each TAF auction is for a fixed amount and a fixed maturity date, with the rate determined by the auction process.

TAF borrowing arrangements are summarized as follows:

		December 31,	
		2008	2007
		(In Thousands)	
TAF maturing 1/31/08 – rate 4.67%	\$	—	\$ 50,000
TAF maturing 1/29/09 – rate .60%		58,000	—
TAF maturing 2/26/09 – rate .42%		25,000	—
	\$	83,000	\$ 50,000

Note 10: Structure Repurchase Agreements

In September 2008, the Company entered into a structured repo borrowing transaction for \$50 million. This borrowing bears interest at a fixed rate of 4.34% if three-month LIBOR remains at 2.81% or less on quarterly interest reset dates; if LIBOR is above the 2.81% rate on quarterly interest reset dates, then the Company's borrowing rate decreases by 2.5 times the difference in LIBOR (up to 250 basis points). The Company pledges investment securities to collateralize this borrowing.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 11: Subordinated Debentures Issued to Capital Trust

Great Southern Capital Trust I (Trust I), a Delaware statutory trust, issued 1,725,000 shares of unsecured 9.00% Cumulative Trust Preferred Securities at \$10 per share in an underwritten public offering. The gross proceeds of the offering were used to purchase 9.00% Junior Subordinated Debentures from the Company totaling \$17,784,000. The Company's proceeds from the issuance of the Subordinated Debentures to Trust I, net of underwriting fees and offering expenses, were \$16.3 million. The Subordinated Debentures were scheduled to mature in 2031; the Company elected to redeem the debentures (and as a result the Trust I securities) in November 2006. As a result of the redemption of the Trust I securities, approximately \$510,000 (after tax) of related unamortized issuance costs were written off as a noncash expense in 2006. The Company entered into an interest rate swap agreement to effectively convert this fixed rate debt to variable rates of interest. The variable rate was three-month LIBOR plus 202 basis points, adjusting quarterly. The interest rate swap was terminated in November 2006 at no cost to the Company.

In November 2006, Great Southern Capital Trust II (Trust II), a statutory trust formed by the Company for the purpose of issuing the securities, issued a \$25,000,000 aggregate liquidation amount of floating rate Cumulative Trust Preferred Securities. The Trust II securities bear a floating distribution rate equal to 90-day LIBOR plus 1.60%. The Trust II securities are redeemable at the Company's option beginning in February 2012, and if not sooner redeemed, mature on February 1, 2037. The Trust II securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$25,774,000. The initial interest rate on the Trust II debentures was 6.98%. The interest rate was 4.79% at December 31, 2008.

In July 2007, Great Southern Capital Trust III (Trust III), a statutory trust formed by the Company for the purpose of issuing the securities, issued a \$5,000,000 aggregate liquidation amount of floating rate Cumulative Trust Preferred Securities. The Trust III securities bear a floating distribution rate equal to 90-day LIBOR plus 1.40%. The Trust III securities are redeemable at the Company's option beginning October 2012, and if not sooner redeemed, mature on October 1, 2037. The Trust III securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended. The gross proceeds of the offering were used to purchase Junior Subordinated Debentures from the Company totaling \$5,155,000. The initial interest rate on the Trust III debentures was 6.76%. The interest rate was 5.28% at December 31, 2008.

Subordinated debentures issued to capital trust are summarized as follows:

	December 31,	
	2008	2007
	(In Thousands)	
Subordinated Debentures	\$ 30,929	\$ 30,929



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 12: Income Taxes

The Company files a consolidated federal income tax return. As of December 31, 2008 and 2007, retained earnings included approximately \$17,500,000 for which no deferred income tax liability had been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only for tax years prior to 1988. If the Bank were to liquidate, the entire amount would have to be recaptured and would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$6,475,000 at December 31, 2008 and 2007.

The provision (credit) for income taxes included these components:

	2008	2007 (In Thousands)	2006
Taxes currently payable	\$ 1,811	\$ 11,365	\$ 14,224
Deferred income taxes	(5,562)	2,978	(365)
Income tax expense (credit)	\$ (3,751)	\$ 14,343	\$ 13,859

The tax effects of temporary differences related to deferred taxes shown on the statements of financial condition were:

	2008	December 31, 2007 (In Thousands)
Deferred tax assets		
Allowance for loan losses	\$ 10,207	\$ 8,911
Interest on nonperforming loans	1,146	—
Accrued expenses	457	429
Excess of cost over fair value of net assets acquired	181	176
Unrealized loss and realized impairment on available-for-sale securities	2,659	946
Fair value of interest rate swaps and related deposits	414	593
Write-down of foreclosed assets	527	95
Other	1	10
	15,592	11,160
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	(254)	(114)
FHLB stock dividends	(227)	(227)
Bank franchise tax refund	(28)	(28)
Partnership tax credits	(157)	(151)
Prepaid expenses	(576)	(518)
Deferred broker fees on CDs	(137)	(1,226)
Other	(162)	(192)
	(1,541)	(2,456)

Net deferred tax asset	\$	14,051	\$	8,704
------------------------	----	--------	----	-------

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Reconciliations of the Company's effective tax rates to the statutory corporate tax rates were as follows:

	2008	2007	2006
Tax at statutory rate	(35.0)%	35.0%	35.0%
Nontaxable interest and dividends	(15.4)	(2.5)	(2.2)
Tax credits	—	—	(.9)
Other	4.5	.4	(.8)
	(45.9)%	32.9%	31.1%

Note 13: Disclosures About Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 has been applied prospectively as of the beginning of this fiscal year. The adoption of SFAS No. 157 did not have an impact on our financial statements except for the expanded disclosures noted below.

The following definitions describe the fair value hierarchy of levels of inputs used in the Fair Value Measurements.

- Quoted prices in active markets for identical assets or liabilities (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Significant unobservable inputs (Level 3): Inputs that reflect assumptions of a source independent of the reporting entity or the reporting entity's own assumptions that are supported by little or no market activity or observable inputs.

Financial instruments are broken down as follows by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The following is a description of valuation methodologies used for assets recorded at fair value on a recurring basis at December 31, 2008.

**Securities Available for Sale.** Investment securities available for sale are recorded at fair value on a recurring basis. The asset fair values used by the Company are obtained from an independent pricing service, which represent either quoted market prices for the identical asset or fair values determined by pricing models, or other model-based valuation techniques, that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems. Recurring Level 1 securities include exchange traded equity securities. Recurring Level 2 securities include U.S. government agency securities, mortgage-backed securities, collateralized mortgage obligations, state and municipal bonds and U.S. government agency equity securities. Recurring Level 3 securities include one corporate debt security.

	Fair Value December 31, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)				
Available for sale securities				
U.S government agencies	\$ 34,756	\$ —	\$ 34,756	\$ —
Collateralized mortgage obligations	71,914	—	71,914	—
Mortgage-backed securities	485,196	—	485,196	—
Corporate bonds	1,205	760	—	445
States and political subdivisions	53,103	—	53,103	—
Equity securities	1,504	716	788	—
Total available-for-sale securities	\$ 647,678	\$ 1,476	\$ 645,757	\$ 445

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The following is a reconciliation of activity for available-for-sale securities measured at fair value based on significant unobservable (Level 3) information. \$10.0 million of U.S. government agency securities were reclassified from Level 3 to Level 2 due to a model-driven valuation with market observable inputs being utilized.

	Investment Securities (In Thousands)
Balance, January 1, 2008	\$ 10,450
Unrealized loss included in comprehensive income	(5)
Transfer from Level 3 to Level 2	(10,000)
Balance, December 31, 2008	\$ 445

Interest Rate Swap Agreements. The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. These fair value estimations include primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. Fair value estimates related to the Company's hedged deposits are derived in the same manner. As of December 31, 2008, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate swap positions, and determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives.

	Fair Value December 31, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements	\$ 31	\$ —	\$ 31	\$ —

(In Thousands)

The following is a description of valuation methodologies used for assets recorded at fair value on a nonrecurring basis at December 31, 2008.

Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as Nonrecurring Level 2. Write-downs to fair value typically do not occur as the Company generally enters into commitments to sell individual mortgage loans at the time the loan is originated to reduce market risk. The Company typically does not have commercial loans held for sale.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a loan is considered impaired, the amount of reserve required under SFAS No. 114 is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or

137

Great Southern Bancorp, Inc.  
 Notes to Consolidated Financial Statements  
 December 31, 2008, 2007 and 2006

earnings of the subject property based on current market expectations, and other relevant factors. In addition, management may apply selling and other discounts to the underlying collateral value to determine the fair value. If an appraised value is not available, the fair value of the impaired loan is determined by an adjusted appraised value including unobservable cash flows.

The Company records impaired loans as Nonrecurring Level 3. If a loan's fair value as estimated by the Company is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a specific reserve as part of the allowance for loan losses. In accordance with the provisions of SFAS No. 114, impaired loans with a carrying value of \$45.6 million, with an associated valuation reserve of \$3.7 million, were recorded at their fair value of \$41.9 million at December 31, 2008. Losses of \$51.7 million related to impaired loans were recognized in earnings through the provision for loan losses during the year ended December 31, 2008.

	Fair Value December 31, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Loans held for sale	\$ 4,695	\$ —	\$ 4,695	\$ —
Impaired loans	41,849	—	—	41,849

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Loans and Interest Receivable

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amount of accrued interest receivable approximates its fair value.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

#### Deposits and Accrued Interest Payable

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date, i.e., their carrying amounts. The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

#### Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing advances.

#### Short-Term Borrowings

The carrying amount approximates fair value.

#### Subordinated Debentures Issued to Capital Trust

The subordinated debentures have floating rates that reset quarterly. The carrying amount of these debentures approximate their fair value.

#### Structured Repurchase Agreements

Structured repurchase agreements are collateralized borrowings from a counterparty. In addition to the principal amount owed, the counterparty also determines an amount that would be owed by either party in the event the agreement is terminated prior to maturity by the Company. The fair values of the structured repurchase agreements are estimated based on the amount the Company would be required to pay to terminate the agreement at the balance sheet date.

#### Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets				
Cash and cash equivalents	\$ 167,920	\$ 167,920	\$ 80,525	\$ 80,525
Available-for-sale securities	647,678	647,678	425,028	425,028
Held-to-maturity securities	1,360	1,422	1,420	1,508
Mortgage loans held for sale	4,695	4,695	6,717	6,717
Loans, net of allowance for loan losses	1,716,996	1,732,758	1,813,394	1,825,886
Accrued interest receivable	13,287	13,287	15,441	15,441
Investment in FHLB stock	8,333	8,333	13,557	13,557
Interest rate swaps	31	31	3,293	3,293
Financial liabilities				
Deposits	1,908,028	1,929,149	1,763,146	1,771,505
FHLB advances	120,472	123,895	213,867	214,498
Short-term borrowings	298,629	298,629	216,721	216,721
Structured repurchase agreements	50,000	56,674	—	—
Subordinated debentures	30,929	30,929	30,929	30,929
Accrued interest payable	9,225	9,225	6,149	6,149
Interest rate swaps	—	—	2,202	2,202
Unrecognized financial instruments (net of contractual value)				
Commitments to originate loans	—	—	—	—
Letters of credit	45	45	69	69
Lines of credit	—	—	—	—

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 14: Operating Leases

The Company has entered into various operating leases at several of its locations. Some of the leases have renewal options.

At December 31, 2008, future minimum lease payments were as follows (in thousands):

2009	\$	839
2010		507
2011		371
2012		354
2013		99
Thereafter		36
	\$	2,206

Rental expense was \$934,000, \$866,000 and \$718,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Note 15: Interest Rate Swaps

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.

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



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

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.

At December 31, 2008, the Company had three SFAS No. 133 designated swaps with Lehman Brothers Special Financing, Inc. (Lehman). One of these three interest rate swaps was terminated by Lehman (at no cost to the Company) subsequent to December 31, 2008. As a result, the Company terminated the related deposit account. On September 15, 2008, Lehman filed for bankruptcy protection and hedge accounting was immediately terminated. The fair market value of the underlying hedged items (certificates of deposit) through September 15, 2008, is being amortized over the remaining life of the hedge period on a straight-line basis. The fair market value of the swaps as of September 15, 2008, included both assets and liabilities totaling a net asset of \$235,000. These swaps were valued using the income approach with observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single discounted present amount. The Level 2 inputs are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, volatilities and credit risk at commonly quoted intervals). Mid-market pricing is used as a practical expedient for fair value measurements. The Company has a netting agreement with Lehman and the collectability of the net asset is uncertain at this time. The Company has a valuation allowance of \$235,000 on the asset as of December 31, 2008.

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 December 31, 2008 and 2007, 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 December 31, 2008, 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 \$11.5 million and \$419.2 million at December 31, 2008 and 2007, respectively. At December 31, 2008, swaps in a net settlement receivable position totaled \$11.5 million. There were no swaps in a net settlement payable position. At December 31, 2007, swaps in a net settlement receivable

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

position totaled \$225.7 million and swaps in a net settlement payable position totaled \$193.5 million. The net gains recognized in earnings on fair value hedges were \$7.0 million, \$1.6 million and \$1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The maturities of interest rate swaps outstanding at December 31, 2008 and 2007, in terms of notional amounts and their average pay and receive rates were as follows:

Interest Rate Swaps(1) Expected Maturity Date	2008			2007		
	Fixed To Variable (In Millions)	Average Pay Rate	Average Receive Rate	Fixed To Variable	Average Pay Rate	Average Receive Rate
2008	\$ —	—%	—%	\$ 109.2	4.68%	5.16%
2009	—	—	—	50.5	4.95	4.04
2010	—	—	—	23.8	4.90	4.01
2011(2)	4.6	1.77	4.00	31.1	4.95	4.12
2012	—	—	—	12.3	4.91	4.81
2013	—	—	—	42.0	4.85	4.52
2014	—	—	—	16.3	4.90	5.09
2015	—	—	—	29.0	4.84	4.84
2016	—	—	—	24.0	5.09	4.81
2017(2)	6.9	2.10	5.00	15.5	4.87	5.28
2019	—	—	—	44.3	4.90	4.88
2020	—	—	—	14.7	4.97	4.00
2023	—	—	—	6.5	5.10	5.10
	\$ 11.5	1.97	4.60	\$ 419.2	4.86	4.70

(1) Interest rate swaps with Lehman Brothers Special Financing, Inc. are not included in this table.

(2) This interest rate swap and the related deposit account were terminated subsequent to December 31, 2008.

#### Note 16: Commitments and Credit Risk

##### Commitments to Originate Loans

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a significant portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon

extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

At December 31, 2008 and 2007, the Bank had outstanding commitments to originate loans and fund commercial construction aggregating approximately \$900,000 and \$30,777,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a 30- to 180-day period.

Mortgage loans in the process of origination represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, many of which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to approximately \$7,516,000 and \$905,000 at December 31, 2008 and 2007, respectively.

#### Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit issued after December 31, 2002, are initially recorded by the Bank as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Bank be obligated to perform under the standby letters of credit the Bank may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to approximately \$16,335,000 and \$20,422,000 at December 31, 2008 and 2007, respectively, with \$11,769,000 and \$15,447,000, respectively, of the letters of credit having terms up to three years. The remaining \$4,566,000 and \$4,975,000 at December 31, 2008 and 2007, respectively, consisted of an outstanding letter of credit to guarantee the payment of principal and interest on a Multifamily Housing Refunding Revenue Bond Issue.

#### Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial real estate and residential real estate. The Bank uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

At December 31, 2008, the Bank had granted unused lines of credit to borrowers aggregating approximately \$106,909,000 and \$45,714,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2007, the Bank had granted unused lines of credit to borrowers aggregating approximately \$318,321,000 and \$43,915,000 for commercial lines and open-end consumer lines, respectively.

Credit Risk

The Bank grants collateralized commercial, real estate and consumer loans primarily to customers in the southwest and central portions of Missouri. Although the Bank has a diversified portfolio, loans aggregating approximately \$214,042,000 and \$215,708,000 at December 31, 2008 and 2007, respectively, are secured by motels, restaurants, recreational facilities, other commercial properties and residential mortgages in the Branson, Missouri, area. Residential mortgages account for approximately \$85,843,000 and \$79,628,000 of this total at December 31, 2008 and 2007, respectively.

In addition, loans aggregating approximately \$218,529,000 and \$250,205,000 at December 31, 2008 and 2007, respectively, are secured by apartments, condominiums, residential and commercial land developments, industrial revenue bonds and other types of commercial properties in the St. Louis, Missouri, area.

Note 17: Additional Cash Flow Information

	2008	2007	2006
	(In Thousands)		
<b>Noncash Investing and Financing Activities</b>			
Real estate acquired in settlement of loans	\$ 31,600	\$ 24,615	\$ 7,869
Sale and financing of foreclosed assets	\$ 7,268	\$ 5,759	\$ 1,019
Conversion of foreclosed assets to premises and equipment	—\$	300	—
Dividends declared but not paid	\$ 2,618	\$ 2,412	\$ 2,188
<b>Additional Cash Payment Information</b>			
Interest paid	\$ 70,155	\$ 92,127	\$ 79,659
Income taxes paid	\$ 4,590	\$ 8,044	\$ 12,938
Income taxes refunded	\$ 172	—	—



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 18: Employee Benefits

The Company participates in a multiemployer defined benefit pension plan covering all employees who have met minimum service requirements. Effective July 1, 2006, this plan was closed to new participants. Employees already in the plan will continue to accrue benefits. The Company's policy is to fund pension cost accrued. Employer contributions charged to expense for the years ended December 31, 2008, 2007 and 2006, were approximately \$1.2 million, \$1.1 million and \$1.5 million, respectively. As a member of a multiemployer pension plan, disclosures of plan assets and liabilities for individual employers are not required or practicable.

The Company has a defined contribution retirement plan covering substantially all employees. In 2006, the Company matched 100% of the employee's contribution on the first 3% of the employee's compensation, and also matched 50% of the employee's contribution on the next 2% of the employee's compensation. Effective January 1, 2007, the Company matches 100% of the employee's contribution on the first 4% of the employee's compensation, and also matches 50% of the employee's contribution on the next 2% of the employee's compensation. Employer contributions charged to expense for the years ended December 31, 2008, 2007 and 2006, were approximately \$673,000, \$642,000 and \$520,000, respectively.

Note 19: Stock Option Plan

The Company established the 1989 Stock Option and Incentive Plan for employees and directors of the Company and its subsidiaries. Under the plan, stock options or other awards could be granted with respect to 2,464,992 (adjusted for stock splits) shares of common stock. This plan has terminated; therefore, no new stock options or other awards may be granted under this plan. At December 31, 2008, there were 2,450 options outstanding under this plan.

The Company established the 1997 Stock Option and Incentive Plan for employees and directors of the Company and its subsidiaries. Under the plan, stock options or other awards could be granted with respect to 1,600,000 (adjusted for stock splits) shares of common stock. Upon stockholders' approval of the 2003 Stock Option and Incentive Plan, the 1997 Stock Option and Incentive Plan was frozen; therefore, no new stock options or other awards may be granted under this plan. At December 31, 2008, there were 113,112 options outstanding under this plan.

The Company established the 2003 Stock Option and Incentive Plan for employees and directors of the Company and its subsidiaries. Under the plan, stock options or other awards could be granted with respect to 1,196,448 (adjusted for stock splits) shares of common stock. At December 31, 2008, there were 584,835 options outstanding under the plan.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Stock options may be either incentive stock options or nonqualified stock options, and the option price must be at least equal to the fair value of the Company's common stock on the date of grant. Options are granted for a 10-year term and generally become exercisable in four cumulative annual installments of 25% commencing two years from the date of grant. The Stock Option Committee may accelerate a participant's right to purchase shares under the plan.

Stock awards may be granted to key officers and employees upon terms and conditions determined solely at the discretion of the Stock Option Committee.

The table below summarizes transactions under the Company's stock option plans:

	Available To Grant	Shares Under Option	Weighted Average Exercise Price
Balance, December 31, 2005	769,635	688,892	\$ 21.877
Granted	(94,720)	94,720	30.600
Exercised	—	(89,192)	(14.249)
Forfeited from terminated plan(s)	—	(3,150)	(16.752)
Forfeited from current plan(s)	10,913	(10,913)	(26.098)
Balance, December 31, 2006	685,828	680,357	24.048
Granted	(99,710)	99,710	25.459
Exercised	—	(65,609)	(17.618)
Forfeited from terminated plan(s)	—	(2,625)	(16.457)
Forfeited from current plan(s)	41,540	(41,540)	(29.010)
Balance, December 31, 2007	627,658	670,293	24.423
Granted	(72,030)	72,030	8.516
Exercised	—	(1,972)	(13.233)
Forfeited from terminated plan(s)	—	(9,394)	(16.229)
Forfeited from current plan(s)	30,560	(30,560)	(26.794)
Balance, December 31, 2008	586,188	700,397	\$ 23.003

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).



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2008	December 31, 2007	December 31, 2006
Expected dividends per share	\$ 0.72	\$ 0.68	\$ 0.59
Risk-free interest rate	2.05%	4.21%	4.71%
Expected life of options	5 years	5 years	5 years
Expected volatility	46.93%	21.89%	23.19%
Weighted average fair value of options granted during year	\$ 1.72	\$ 5.01	\$ 7.26

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 year ended December 31, 2008.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding, January 1, 2008	670,293	\$ 24.423	5.68
Granted	72,030	8.516	—
Exercised	(1,972)	13.233	—
Forfeited	(39,954)	24.310	—
Options outstanding, December 31, 2008	700,397	23.003	6.21
Options exercisable, December 31, 2008	453,474	23.358	4.90

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

For the years ended December 31, 2008, 2007 and 2006, options granted were 72,030, 99,710 and 94,720, 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 years ended December 31, 2008, 2007 and 2006, was \$7,000, \$605,000 and \$1.3 million, respectively. Cash received from the exercise of options for the years ended December 31, 2008, 2007 and 2006, was \$26,000, \$1.8 million and \$1.3 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$182, \$238,000 and \$715,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table presents the activity related to nonvested options under all plans for the year ended December 31, 2008.

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Nonvested options, January 1, 2008	264,109	\$ 27.002	\$ 5.976
Granted	72,030	8.516	1.718
Vested this period	(72,201)	24.860	5.681
Nonvested options forfeited	(17,015)	25.338	5.724
Nonvested options, December 31, 2008	246,923	19.968	4.354

At December 31, 2008, there was \$1.0 million of total unrecognized compensation cost related to nonvested options granted under the Company's plans. This compensation cost is expected to be recognized through 2013, with the majority of this expense recognized in 2009 and 2010.

The following table further summarizes information about stock options outstanding at December 31, 2008:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 7.688 to \$9.078	90,275	7.67 years	\$ 8.290	24,145	\$ 8.100
\$ 10.110 to \$13.594	46,452	2.80 years	\$ 12.392	42,952	\$ 12.578
\$ 18.188 to \$25.000	204,415	4.59 years	\$ 20.044	196,415	\$ 19.917
\$ 25.480 to \$36.390	359,255	7.20 years	\$ 29.756	189,962	\$ 31.293

700,397	6.21 years	\$	23.003	453,474	\$	23.358
---------	------------	----	--------	---------	----	--------

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnotes on loans, deposits and on commitments and credit risk.

Other significant estimates not discussed in those footnotes include valuations of foreclosed assets held for sale. The carrying value of foreclosed assets reflects management's best estimate of the amount to be realized from the sales of the assets. While the estimate is generally based on a valuation by an independent appraiser or recent sales of similar properties, the amount that the Company realizes from the sales of the assets could differ materially in the near term from the carrying value reflected in these financial statements.

Current Economic Conditions

The current economic environment presents financial institutions with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significantly credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses or capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Note 21: Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I Capital (as defined) to adjusted tangible assets (as defined). Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based and Tier 1 leverage capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table. No amount was deducted from capital for interest-rate risk.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In Thousands)						
As of December 31, 2008						
Total risk-based capital						
Great Southern Bancorp, Inc.	\$ 286,332	15.1%	\$ <sup>3</sup> 151,806	<sup>3</sup> 8.0%	N/A	N/A
Great Southern Bank	\$ 226,091	11.9%	\$ <sup>3</sup> 151,543	<sup>3</sup> 8.0%	\$ <sup>3</sup> 189,429	<sup>3</sup> 10.0%
Tier I risk-based capital						
Great Southern Bancorp, Inc.	\$ 262,545	13.8%	\$ <sup>3</sup> 75,903	<sup>3</sup> 4.0%	N/A	N/A
Great Southern Bank	\$ 202,345	10.7%	\$ <sup>3</sup> 75,772	<sup>3</sup> 4.0%	\$ <sup>3</sup> 113,657	<sup>3</sup> 6.0%
Tier I leverage capital						
Great Southern Bancorp, Inc.	\$ 262,545	10.1%	\$ <sup>3</sup> 104,471	<sup>3</sup> 4.0%	N/A	N/A
Great Southern Bank	\$ 202,345	7.8%	\$ <sup>3</sup> 104,336	<sup>3</sup> 4.0%	\$ <sup>3</sup> 130,420	<sup>3</sup> 5.0%
As of December 31, 2007						
Total risk-based capital						
Great Southern Bancorp, Inc.	\$ 243,777	11.9%	\$ <sup>3</sup> 164,465	<sup>3</sup> 8.0%	N/A	N/A
Great Southern Bank	\$ 239,568	11.7%	\$ <sup>3</sup> 164,161	<sup>3</sup> 8.0%	\$ <sup>3</sup> 205,201	<sup>3</sup> 10.0%
Tier I risk-based capital						
Great Southern Bancorp, Inc.	\$ 218,318	10.6%	\$ <sup>3</sup> 82,233	<sup>3</sup> 4.0%	N/A	N/A
Great Southern Bank	\$ 214,109	10.4%	\$ <sup>3</sup> 82,080	<sup>3</sup> 4.0%	\$ <sup>3</sup> 123,120	<sup>3</sup> 6.0%



Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Tier I leverage capital						
Great Southern Bancorp, Inc.	\$ 218,318	9.1%	\$ 395,603	34.0%	N/A	N/A
Great Southern Bank	\$ 214,109	9.0%	\$ 395,410	34.0%	\$ 3119,263	35.0%

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The Company and the Bank are subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2008 and 2007, the Company and the Bank exceeded their minimum capital requirements. The entities may not pay dividends which would reduce capital below the minimum requirements shown above.

Note 22: Litigation Matters

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 or 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.

Note 23: Summary of Unaudited Quarterly Operating Results

Following is a summary of unaudited quarterly operating results for the years 2008, 2007 and 2006:

	2008			
	March 31	Three Months Ended		
		June 30	September 30	December 31
	(In Thousands, Except Per Share Data)			
Interest income	\$ 38,340	\$ 35,664	\$ 35,024	\$ 35,786
Interest expense	20,497	17,533	16,657	18,544
Provision for loan losses	37,750	4,950	4,500	5,000
Net realized gains (losses) and impairment on available-for-sale securities	6	1	(5,293)	(2,056)
Noninterest income	10,182	9,864	1,789	6,309
Noninterest expense	14,116	13,557	14,650	13,383
Provision (credit) for income taxes	(8,688)	3,156	182	1,599
Net income (loss)	(15,153)	6,332	824	3,569
Net income (loss) available to common shareholders	(15,153)	6,332	824	3,327
Earnings (loss) per common share – diluted	(1.13)	.47	.06	.25

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

	2007			
	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Data)			
Interest income	\$ 39,458	\$ 41,703	\$ 41,976	\$ 40,733
Interest expense	22,272	23,215	24,044	22,934
Provision for loan losses	1,350	1,425	1,350	1,350
Net realized gains (losses) and impairment on available-for-sale securities	—	—	4	(1,131)
Noninterest income	6,965	7,927	7,610	6,915
Noninterest expense	11,918	12,742	13,320	13,726
Provision for income taxes	3,548	4,041	3,555	3,199
Net income	7,335	8,207	7,317	6,439
Earnings per common share – diluted	.53	.60	.54	.48

	2006			
	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Data)			
Interest income	\$ 34,197	\$ 37,228	\$ 39,204	\$ 39,452
Interest expense	17,565	20,105	21,339	21,845
Provision for loan losses	1,325	1,425	1,350	1,350
Net realized gains (losses) on available-for-sale securities	—	(29)	28	—
Noninterest income	7,123	7,441	7,090	7,978
Noninterest expense	11,750	12,115	12,288	12,654
Provision for income taxes	3,484	3,500	3,287	3,588
Net income	7,196	7,524	8,030	7,993
Earnings per common share – diluted	.52	.54	.58	.58

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 24: Condensed Parent Company Statements

The condensed statements of financial condition at December 31, 2008 and 2007, and statements of operations and cash flows for the years ended December 31, 2008, 2007 and 2006, for the parent company, Great Southern Bancorp, Inc., were as follows:

	December 31,	
	2008	2007
	(In Thousands)	
Statements of Financial Condition		
Assets		
Cash	\$ 60,943	\$ 4,335
Available-for-sale securities	1,359	2,335
Investment in subsidiary bank	203,870	215,602
Income taxes receivable	656	91
Deferred income taxes	17	59
Premises and equipment	12	134
Prepaid expenses	13	18
Other assets	1,164	1,172
	\$ 268,034	\$ 223,746
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	\$ 3,018	\$ 2,946
Subordinated debentures issued to capital trust	30,929	30,929
Preferred stock	55,580	—
Common stock	134	134
Common stock warrants	2,452	—
Additional paid-in capital	19,811	19,342
Retained earnings	156,247	170,933
Unrealized loss on available-for-sale securities, net	(137)	(538)
	\$ 268,034	\$ 223,746

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

	2008	2007 (In Thousands)	2006
Statements of Operations			
Income			
Dividends from subsidiary bank	\$ 40,000	\$ 10,000	\$ 10,000
Interest and dividend income	114	8	47
Net realized losses on impairments of available-for-sale securities	(1,718)	—	—
Other income	145	1	1
	38,541	10,009	10,048
Expense			
Provision for loan losses	29,579	—	—
Operating expenses	1,091	1,109	1,779
Interest expense	1,462	1,914	1,334
	32,132	3,023	3,113
Income before income tax and equity in undistributed earnings of subsidiaries	6,409	6,986	6,935
Credit for income taxes	(11,716)	(972)	(981)
Income before equity in earnings of subsidiaries	18,125	7,958	7,916
Equity in undistributed earnings of subsidiaries	(22,553)	21,341	22,827
Net income (loss)	\$ (4,428)	\$ 29,299	\$ 30,743

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

	2008	2007 (In Thousands)	2006
<b>Statements of Cash Flows</b>			
<b>Operating Activities</b>			
Net income (loss)	\$ (4,428)	\$ 29,299	\$ 30,743
Items not requiring (providing) cash			
Equity in undistributed earnings of subsidiary	22,553	(21,341)	(22,827)
Depreciation	7	10	9
Amortization	—	—	806
Provision for loan losses	29,579	—	—
Net realized gains on sale of fixed assets	(151)	—	—
Net realized losses on impairments of available-for-sale securities	1,718	—	—
Net realized (gains) losses on other investments	8	(1)	(1)
Changes in			
Prepaid expenses and other assets	5	(3)	(1)
Accounts receivable	—	—	113
Accounts payable and accrued expenses	(134)	189	198
Income taxes	(565)	(12)	(39)
Net cash provided by operating activities	48,592	8,141	9,001
<b>Investing Activities</b>			
Investment in subsidiaries	(10,500)	—	—
Purchase of fixed assets	(34)	—	—
Proceeds from sale of fixed assets	300	—	—
Purchase of loans	(30,000)	—	—
Net change in loans	421	—	—
Purchase of available-for-sale securities	(620)	(2,006)	(500)
Net cash used in investing activities	(40,433)	(2,006)	(500)
<b>Financing Activities</b>			
Proceeds from issuance of preferred stock and related common stock warrants	58,000	—	—
Proceeds from issuance of trust preferred debentures	—	5,000	25,000
Repayment of trust preferred debentures	—	—	(17,250)
Dividends paid	(9,637)	(8,981)	(7,947)
Stock options exercised	494	1,673	1,752
Company stock purchased	(408)	(8,756)	(3,722)
Net cash provided by (used in) financing activities	48,449	(11,064)	(2,167)
Increase (Decrease) in Cash	56,608	(4,929)	6,334

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

Cash, Beginning of Year		4,335		9,264		2,930
Cash, End of Year	\$	60,943	\$	4,335	\$	9,264
Additional Cash Payment Information						
Interest paid	\$	1,559	\$	1,751	\$	1,136

156

Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

Note 25: Preferred Stock and Common Stock Warrant

On December 5, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program of the United States Department of the Treasury (Treasury), the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with Treasury, pursuant to which the Company (i) sold to Treasury 58,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), having a liquidation preference amount of \$1,000 per share, for a purchase price of \$58.0 million in cash and (ii) issued to Treasury a ten-year warrant (the "Warrant") to purchase 909,091 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at an exercise price of \$9.57 per share.

The Series A Preferred Stock will qualify as Tier 1 capital and will pay cumulative dividends on the liquidation preference amount on a quarterly basis at a rate of 5% per annum for the first five years, and 9% per annum thereafter. Pursuant to the Purchase Agreement, subject to the prior approval of the Board of Governors of the Federal Reserve System, the Series A Preferred Stock is redeemable at the option of the Company in whole or in part at a redemption price of 100% of the liquidation preference amount plus any accrued and unpaid dividends, provided that the Series A Preferred Stock may be redeemed prior to the first dividend payment date falling after the third anniversary of the issue date (December 5, 2011) only if (i) the Company has raised aggregate gross proceeds in one or more Qualified Equity Offerings of at least \$14.5 million and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. A "Qualified Equity Offering" is defined as the sale for cash by the Company of preferred stock or common stock that qualifies as Tier 1 capital. These provisions have been modified as discussed below.

The exercise price of and number of shares of Common Stock underlying the Warrant are subject to customary anti-dilution adjustments. Treasury may not transfer a portion or portions of the Warrant with respect to, and/or exercise the Warrant for more than one-half of, the 909,091 shares of Common Stock underlying the Warrant until the earlier of (i) the date on which the Company has received aggregate gross proceeds of at least \$58.0 million from one or more Qualified Equity Offerings and (ii) December 31, 2009. If the Company completes one or more Qualified Equity Offerings on or prior to December 31, 2009, that result in the Company receiving aggregate gross proceeds of at least \$58.0 million, then the number of the shares of Common Stock underlying the Warrant will be reduced to 50% of the original number of shares of Common Stock underlying the Warrant. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued to it upon exercise of the Warrant.

The enactment of the American Recovery and Reinvestment Act of 2009 on February 17, 2009, permits the Company to repay the Treasury without penalty and without the need to raise new capital, subject to the Treasury's consultation with the recipient's appropriate regulatory agency. Additionally, upon repayment the Treasury will liquidate all outstanding warrants at their current market value.



Great Southern Bancorp, Inc.  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

The proceeds from the TARP Capital Purchase Program were allocated between the Series A Preferred Stock and the Warrant based on relative fair value, which resulted in an initial carrying value of \$55.5 million for the Series A Preferred Shares and \$2.5 million for the Warrant. The resulting discount to the Series A Preferred Shares of \$2.5 million will accrete on a level yield basis over five years ending December 2013 and is being recognized as additional preferred stock dividends. The fair value assigned to the Series A Preferred Shares was estimated using a discounted cash flow model. The discount rate used in the model was based on yields on comparable publicly traded perpetual preferred stocks. The fair value assigned to the warrant was based on a Black Scholes option-pricing model using several inputs, including risk-free rate, expected stock price volatility and expected dividend yield.

The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). In accordance with the Purchase Agreement, the Company subsequently registered the Series A Preferred Stock, the Warrant and the shares of Common Stock underlying the Warrant under the Securities Act.

Note 26: Subsequent Event

In addition to the regular quarterly deposit insurance assessments, due to losses and projected losses attributed to failed institutions, on February 27, 2009, the FDIC adopted a rule, effective April 1, 2009, imposing on every insured institution a special assessment equal to 20 basis points of its assessment base as of June 30, 2009, to be collected on September 30, 2009. There is a proposal under discussion, under which the FDIC's line of credit with the U.S. Treasury would be increased and the FDIC would reduce the special assessment to 10 basis points. There can be no assurance whether the proposal will become effective. The special assessment rule also authorizes the FDIC to impose additional special assessments if the reserve ratio of the DIF is estimated to fall to a level that the FDIC's board believes would adversely affect public confidence or that is close to zero or negative. Any additional special assessment would be in amount up to 10 basis points on the assessment base for the quarter in which it is imposed and would be collected at the end of the following quarter.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
ITEM

9.

ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

CONTROLS AND PROCEDURES.

ITEM

9A.

We maintain a system of disclosure controls and procedures (as defined in Rule 13(a)-15(e) under the Securities Exchange Act (the "Exchange Act")) that is designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate. An evaluation of our disclosure controls and procedures was carried out as of December 31, 2008, 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 December 31, 2008, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the principal executive officer and principal financial officer) to allow timely decisions regarding required disclosure, 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 Act) that occurred during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The annual report of management on the effectiveness of internal control over financial reporting and the attestation report thereon issued by our independent registered public accounting firm are set forth below under "Management's Report on Internal Control Over Financial Reporting" and "Report of the Independent Registered Public Accounting Firm."

We do not expect that our 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.

MANAGEMENT'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING

The management of Great Southern Bancorp, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of

unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, has been audited by BKD, LLP, an independent registered public accounting firm. Their attestation report on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 is set forth below.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders  
Great Southern Bancorp, Inc.  
Springfield, Missouri

We have audited Great Southern Bancorp, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Audit Committee, Board of Directors and Stockholders  
Great Southern Bancorp, Inc.  
Page 2

In our opinion, Great Southern Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Great Southern Bancorp, Inc. and our report dated March 16, 2009, expressed an unqualified opinion thereon.

/s/BKD, LLP

Springfield, Missouri  
March 16, 2009

OTHER INFORMATION.

ITEM  
9B.

None.

PART III

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

ITEM  
10.

Directors and Executive Officers. The information concerning our directors and executive officers required by this item is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year.

Section 16(a) Beneficial Ownership Reporting Compliance. The information concerning compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 by our directors, officers and ten percent stockholders required by this item is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year.

Code of Ethics. We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions, and to all of our other employees and our directors. A copy of our code of ethics was filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2007.

EXECUTIVE COMPENSATION.

ITEM  
11.

The information concerning compensation and other matters required by this item is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND

ITEM  
12.

MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information concerning security ownership of certain beneficial owners and management required by this item is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year.





The following table sets forth information as of December 31, 2008 with respect to compensation plans under which shares of our common stock may be issued:

Equity Compensation Plan Information

Plan Category	Number of Shares to be issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders	700,397	\$23,003	586,188(1)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	700,397	\$23,003	586,188(1)

(1) Under the Company's 2003 Stock Option and Incentive Plan, all remaining shares could be issued to plan participants as restricted stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

ITEM

13.

The information concerning certain relationships and related transactions and director independence required by this item is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of our fiscal year.

PRINCIPAL ACCOUNTANT FEES AND SERVICES.

ITEM

14.

The information concerning principal accountant fees and services is incorporated herein by reference from our definitive proxy statement for our 2009 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the end of our fiscal year.

PART IV

ITEM 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) List of Documents Filed as Part of This Report

(1) Financial Statements

The Consolidated Financial Statements and Independent Accountants' Report are included in Item 8.

(2) Financial Statement Schedules

Inapplicable.

(3) List of Exhibits

Exhibits incorporated by reference below are incorporated by reference pursuant to Rule 12b-32.

(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.

(iA) The Articles Supplementary to the Registrant's Charter setting forth the terms of the Registrant's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, previously filed with the Commission as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 9, 2008, are incorporated herein by reference as Exhibit 3(i).

(ii) The Registrant's Bylaws, previously filed with the Commission (File no. 000-18082) as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on October 19, 2007, are 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 SEC upon request, copies of the instruments defining the rights of the holders of each issue of the Registrant's long-term debt.

The warrant to purchase shares of the Registrant's common stock dated December 5, 2008, previously filed with the Commission as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on December 9, 2008, is incorporated herein by reference as Exhibit 4(i).

- (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, for the fiscal, 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 current salary and bonus arrangements for the Registrant's executive officers for 2009 is attached as Exhibit 10.8.

A description of the current fee arrangements for the Registrant's directors is attached as Exhibit 10.9.

Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

The Letter Agreement, including Schedule A, and Securities Purchase Agreement, dated December 5, 2008, between the Registrant and the United States Department of the Treasury, previously filed with the Commission as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 9, 2008, is incorporated herein by reference as Exhibit 10.10.

The form of Compensation Modification Agreement and Waiver, executed by each of William V. Turner, Joseph W. Turner, Rex A. Copeland, Steven G. Mitchem, Douglas W. Marrs and Linton J. Thomason, previously filed with the Commission as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 9, 2008, is incorporated herein by reference as Exhibit 10.11.

(11) Statement re computation of per share earnings

The Statement re computation of per share earnings is included in Note 1 of the Consolidated Financial Statements under Part II, Item 8 above.

(12) Statements re computation of ratios

The Statement re computation of ratio of earnings to fixed charges is attached hereto as Exhibit 12.

(13) Annual report to security holders, Form 10-Q or quarterly report to security holders

Inapplicable.

(14) Code of Ethics

The Registrant's Code of Business Conduct and Ethics previously filed with the Commission as Exhibit 14 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 is incorporated herein by reference as Exhibit 14.

- (16) Letter re change in certifying accountant  
Inapplicable.
- (18) Letter re change in accounting principles  
Inapplicable.
- (21) Subsidiaries of the registrant  
A list of the Registrant's subsidiaries is attached hereto as Exhibit 21.
- (22) Published report regarding matters submitted to vote of security holders  
Inapplicable.
- (23) Consents of experts and counsel  
The consent of BKD, LLP to the incorporation by reference into the Form S-3 (File no. 333-156551) and Form S-8s (File nos. 33-55832, 333-104930 and 333-106190) previously filed with the Commission of their report on the financial statements included in this Form 10-K, is attached hereto as Exhibit 23.
- (24) Power of attorney  
Included as part of signature page.
- (31.1) Rule 13a-14(a) Certification of Chief Executive Officer  
Attached as Exhibit 31.1
- (31.2) Rule 13a-14(a) Certification of Treasurer  
Attached as Exhibit 31.2
- (32) Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)  
Attached as Exhibit 32.
- (99) Additional Exhibits  
Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 16, 2009

By: /s/ Joseph W.  
Turner  
Joseph W. Turner  
President, Chief Executive Officer  
and  
Director  
( Duly Authorized Representative  
)

POWER OF ATTORNEY

We, the undersigned officers and directors of Great Southern Bancorp, Inc., hereby severally and individually constitute and appoint Joseph W. Turner and Rex A. Copeland, and each of them, the true and lawful attorneys and agents of each of us to execute in the name, place and stead of each of us (individually and in any capacity stated below) any and all amendments to this Annual Report on Form 10-K and all instruments necessary or advisable in connection therewith and to file the same with the Securities and Exchange Commission, each of said attorneys and agents to have the power to act with or without the others and to have full power and authority to do and perform in the name and on behalf of each of the undersigned every act whatsoever necessary or advisable to be done in the premises as fully and to all intents and purposes as any of the undersigned might or could do in person, and we hereby ratify and confirm our signatures as they may be signed by our said attorneys and agents or each of them to any and all such amendments and instruments.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Capacity in Which Signed	Date
/s/ Joseph W. Turner Joseph W. Turner	President, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2009
/s/ William V. Turner William V. Turner	Chairman of the Board	March 16, 2009



Edgar Filing: GREAT SOUTHERN BANCORP INC - Form 10-K

/s/ Rex A. Copeland Rex A. Copeland	Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2009
/s/ William E. Barclay William E. Barclay	Director	March 16, 2009
/s/ Larry D. Frazier Larry D. Frazier	Director	March 16, 2009
/s/ Thomas J. Carlson Thomas J. Carlson	Director	March 16, 2009
/s/ Julie T. Brown Julie T. Brown	Director	March 16, 2009
/s/ Earl A. Steinert, Jr. Earl A. Steinert, Jr.	Director	March 16, 2009

GREAT SOUTHERN BANCORP, INC.

INDEX TO EXHIBITS

Document

Exhibit No.

10.8	Description of Salary and Bonus Arrangements for Named Executive Officers for 2009
10.9	Description of Current Fee Arrangements for Directors
12	Statement of Ratio of Earnings to Fixed Charges
21	Subsidiaries of the Registrant
23	Consent of BKD, LLP, Certified Public Accountants
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
31.2	Certification of Treasurer Pursuant to Rule 13a-14(a)
32	Certifications Pursuant to Section 906 of Sarbanes-Oxley Act