

GREAT SOUTHERN BANCORP INC  
Form 10-K/A  
April 07, 2005

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

FORM 10-K/A

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

For the fiscal year ended December 31, 2003

Commission File Number 0-18082

**GREAT SOUTHERN BANCORP, INC.**

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(Exact name of registrant as specified in its charter)

**Delaware**

**43-1524856**

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(State of Incorporation)

(IRS Employer Identification Number)

**1451 E. Battlefield, Springfield, Missouri**

**65804**

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(Address of Principal Executive Offices)

(Zip Code)

**(417) 887-4400**

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(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value \$.01

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

Indicate by check mark 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 information statements incorporated by reference in Part III of this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act

Yes  No

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on June 30, 2003, computed by reference to the closing price of such shares on that date, was \$218,445,953. At March 8,

2004, 6,853,351 shares of the Registrant's common stock were outstanding.

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EXPLANATORY NOTE

This amendment to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 is being filed in response to comments issued by the Staff of the SEC as part of its normal review process. Various changes throughout the document have been made in response to these comments. No changes have been made to the Registrant's balance sheet or income statement as a result of these comments; however, additional detailed information has been provided in certain notes to the consolidated financial statements.

PART I

ITEM 1. BUSINESS.

THE COMPANY

**Great Southern Bancorp, Inc.**

Great Southern Bancorp, Inc. ("Bancorp" or "Company") is a financial holding company which, as of December 31, 2003, owned directly all of the stock of Great Southern Bank ("Great Southern" or the "Bank") and other non-banking subsidiaries. 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" 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.

As a Delaware corporation, the Company is authorized to engage in any activity that is permitted by the Delaware 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 would have 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, 2003, Bancorp's consolidated assets were

\$1.54 billion, consolidated net loans were \$1.09 billion, consolidated deposits were \$1.14 billion and consolidated stockholders' equity was \$120 million. The assets of the Company consist primarily of the stock of Great Southern, 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, discount brokerage 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 incorporated as a Missouri-chartered mutual savings and loan association in 1923, and, in 1989, was 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 29 branches located in southwestern and central Missouri. At December 31, 2003, the Bank had total assets of \$1.54 billion, net loans of \$1.09 billion, deposits of \$1.14 billion and stockholders' equity of \$134 million, or 8.7% of total assets. Its deposits are insured by the Savings Association Insurance Fund ("SAIF") to the maximum levels permitted by the Federal Deposit Insurance Corporation ("FDIC").

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Great Southern is principally engaged in the business of originating residential and commercial real estate loans, other commercial and consumer loans and funding these loans through attracting deposits from the general public, originating brokered deposits and borrowing funds 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" 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, 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 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 15 counties in southwestern 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 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 its 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.

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Great Southern's largest concentration of loans and deposits is in the Greater Springfield area. With a population of approximately 379,000, 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. Springfield is also a regional health care center. The unemployment rate in this area is, and has consistently been, below the national average.

The second largest concentration of loans is in the Branson area. The region is a vacation and entertainment center, attracting tourists to its theme parks, resorts, country music and novelty shows and other recreational facilities. As a result of the rapid growth of the Branson area in the early 1990's, property values increased at unusually high rates. This growth also provided for increased loan demand and a more volatile lending market than had previously been present in that area. Due to overbuilding of commercial properties during the mid-1990's, property values had experienced downward pressure in the late 1990's. In recent years, commercial real estate values have stabilized. Reduced demand for residential properties in the 1990's similarly created downward pressure on one- to four-family and multi-family, primary and vacation residences in this area. In recent years, residential real estate demand and values have shown improvements.

A significant portion of the Bank's loan originations have been secured by properties in the two county region that includes the Branson area. Approximately \$163 million, or 13%, of the total loan portfolio at December 31, 2003, was secured by commercial real estate, commercial construction, other residential properties, one- to four-family residential properties, and one- to four-family construction properties, and consumer loans in the Branson area. Residential mortgages account for approximately \$60 million of this total. Included in the Branson concentration totals are approximately \$1.1 million of non-performing loans.

To expand and diversify the Bank's loan portfolio, the Bank opened a loan production branch in Kansas City, Missouri, and a loan production office in Rogers, Arkansas, in 2003. Great Southern has historically served commercial lending needs in the Greater Kansas City and Northwest Arkansas regions from its Springfield office. The Bank's familiarity with these two growth markets, coupled with potential strong loan demand, led to physical expansion in these regions that allows Great Southern to more conveniently serve and expand relationships with existing customers 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, including fixed and variable rate commercial real estate loans for new and existing customers. Underwriting of all loan production in these regions is performed in Springfield, so credit decisions are consistent across all markets.

The Kansas City branch, which does not currently accept deposits or perform cash transactions, opened in January 2003 and primarily serves the Greater Kansas City market. In 2003, the Kansas City branch experienced strong growth with \$41.4 million in commercial loan originations. As of December 31, 2003, the Kansas City branch had \$85.0 million in outstanding loan balances, which includes loans previously originated and serviced by the Springfield office.

In September 2003, the Northwest Arkansas loan production office opened in Rogers and primarily serves the Northwest Arkansas corridor, which includes the cities of Fayetteville, Rogers, Springdale and Bentonville. The Northwest Arkansas corridor was named as the strongest regional economy in the nation, according to a recent Milken Institute Report. Loan originations in 2003 for the Northwest Arkansas office were \$33.0 million. As of December 31, 2003, the Arkansas office has outstanding loan balances of \$57.7 million, which includes loans previously originated and serviced by the Springfield office.

**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. Substantially all of the adjustable-rate mortgage loans originated by Great Southern are held for its own portfolio and substantially all of the long-term fixed-rate residential mortgage loans originated by Great Southern are sold in the secondary market.

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 have merged with larger institutions and changed their business practices or moved operations away from the local area, and others have consolidated operations from the local area to larger cities. This has provided Great Southern expanded opportunity in these areas as well as in the origination of commercial business and consumer loans, primarily the indirect automobile area. In addition to origination of these loans, the Bank has expanded and enlarged its relationships with smaller banks to purchase participations (at par, generally with no servicing costs) in loans the smaller banks originate but are unable to retain in their portfolios due to capital limitations. The Bank uses the same underwriting guidelines in evaluating these participations as it does in its direct loan originations. At December 31, 2003, the balance of participation loans purchased was \$88.0 million, or 7.2% of the total loan portfolio. None of these participation loans were non-performing at December 31, 2003.

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 and at other times released to the purchaser of the loan. Great Southern retains substantially all of the adjustable-rate mortgage loans in its portfolio.

Another principal lending activity of Great Southern is the origination of commercial real estate and construction loans. Since the early 1990s, this area of lending has been an increasing percentage of the loan portfolio and accounts for approximately 51% of the portfolio at December 31, 2003.

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. See "-- Other Commercial Lending," "- Classified Assets," and "Loan Delinquencies and Defaults" below. Letters of credit are contingent obligations and are not included in the Bank's loan portfolio.

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Great Southern has a policy of obtaining collateral for substantially all real estate loans. 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 80% of the appraised value on one- to four-family residential property and will loan up to an additional

15% with private mortgage insurance for the loan amount above the 80% level. For commercial real estate and other residential real property loans, Great Southern generally loans up to a maximum of 80% 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 \$500,000 (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 some loans, secured primarily by commercial real estate, in other states, primarily Oklahoma, Kansas and other Midwestern states.

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### 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.

December 31,

	2003		2002		2001		2000		1999	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in thousands)										
Real Estate Loans:										
Residential										
One- to four- family	\$ 158,990	13.0%	\$ 172,142	16.0%	\$ 190,556	18.4%	\$226,136	23.6%	\$208,466	25.3%
Other residential	107,090	8.7	84,862	7.9	88,274	8.5	81,143	8.5	76,926	9.4
Commercial	441,784	36.1	401,941	37.4	351,037	34.0	328,432	34.3	251,338	30.5
Residential Construction:										
One- to four-family	92,126	7.5	68,416	6.4	49,306	4.8	47,241	4.9	39,795	4.8
Other residential	29,211	2.4	29,107	2.7	30,408	2.9	23,703	2.5	7,106	.9
Commercial construction	180,211	14.7	115,148	10.7	127,171	12.3	73,398	7.7	63,722	7.8
Total real estate loans	1,009,412	82.4	871,616	81.1	836,752	80.9	780,053	81.5	647,353	78.7



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Other Loans:										
Consumer loans:										
Guaranteed student loans	3,090	.3	3,407	.3	3,818	.4	3,892	.5	4,067	.5
Automobile	78,828	6.4	74,160	6.9	67,909	6.6	67,356	7.0	55,625	6.8
Home equity and improvement	40,028	3.3	33,896	3.2	27,198	2.6	19,460	2.0	14,431	1.8
Other	1,482	.1	980	.1	630	.1	491	.1	255	--
<b>Total Consumer loans</b>	<b>123,428</b>	<b>10.1</b>	<b>112,443</b>	<b>10.5</b>	<b>99,555</b>	<b>9.7</b>	<b>91,199</b>	<b>9.6</b>	<b>74,378</b>	<b>9.1</b>
Other commercial loans	92,039	7.5	91,123	8.4	97,557	9.4	85,334	8.9	100,419	12.2
<b>Total other loans</b>	<b>215,467</b>	<b>17.6</b>	<b>203,566</b>	<b>18.9</b>	<b>197,112</b>	<b>19.1</b>	<b>176,533</b>	<b>18.5</b>	<b>174,797</b>	<b>21.3</b>
<b>Total loans</b>	<b>1,224,879</b>	<b>100.0%</b>	<b>1,075,182</b>	<b>100.0%</b>	<b>1,033,864</b>	<b>100.0%</b>	<b>956,586</b>	<b>100.0%</b>	<b>822,150</b>	<b>100.0%</b>
Less:										
Loans in process	109,004		55,468		46,744		45,834		36,048	
Deferred fees and discounts	834		779		906		1,274		2,002	
Allowance for loan losses	20,844		21,288		21,328		18,694		17,293	
<b>Total loans receivable, net</b>	<b>\$1,094,197</b>		<b>\$ 997,647</b>		<b>\$ 964,886</b>		<b>\$890,784</b>		<b>\$766,807</b>	

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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.

December 31,

2003		2002		2001		2000		1999	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%

(Dollars in thousands)

Fixed-Rate Loans:

Real Estate Loans

Residential

One- to four- family	\$ 26,136	2.1%	\$ 19,142	1.8%	\$ 10,477	1.0%	\$ 6,414	.7%	\$ 5,960	.7%
Other Residential	51,961	4.2	48,661	4.5	48,518	4.7	38,345	4.0	37,079	4.5
Commercial	98,014	8.0	82,760	7.7	50,039	4.8	40,102	4.2	37,636	4.6
Residential construction:										
One- to four- family	59,070	4.8	35,843	3.3	5,925	.6	1,130	.1	---	---
Other Residential	8,165	.7	7,291	.7	---	---	---	---	---	---
Commercial construction	22,007	1.8	10,843	1.0	---	---	---	---	---	---

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Total real estate loans	265,353	21.6	204,540	19.0	114,959	11.1	85,991	9.0	80,675	9.8
Consumer loans	85,710	7.0	80,544	7.5	67,496	6.5	66,751	7.0	54,829	6.7
Other commercial loans	29,243	2.4	14,977	1.4	14,465	1.4	10,526	1.1	4,266	.5
<hr/>										
Total fixed-rate loans	380,306	31.0	300,061	27.9	196,920	19.0	163,268	17.1	139,770	17.0
<hr/>										
Adjustable-Rate Loans:										
Real Estate Loans										
Residential										
One- to four- family	132,854	10.9	153,000	14.2	180,079	17.4	219,722	23.0	202,506	24.6
Other Residential	55,129	4.5	36,201	3.4	39,756	3.9	42,798	4.5	39,847	4.9
Commercial	343,770	28.1	319,181	29.7	300,998	29.1	288,330	30.1	213,702	26.0
Residential construction:										
One- to four-family	33,056	2.7	32,573	3.0	43,381	4.2	46,111	4.8	39,795	4.8
Other residential	21,046	1.7	21,816	2.0	30,408	2.9	23,703	2.5	7,106	.9
Commercial construction	158,204	12.9	104,305	9.7	127,171	12.3	73,398	7.7	63,722	7.7
<hr/>										
Total real estate loans	744,059	60.8	667,076	62.0	721,793	69.8	694,062	72.6	566,678	68.9
Consumer loans	37,718	3.1	31,899	3.0	32,059	3.1	24,448	2.5	19,549	2.4
Other commercial loans	62,796	5.1	76,146	7.1	83,092	8.1	74,808	7.8	96,153	11.7
<hr/>										
Total adjustable-rate loans	844,573	69.0	775,121	72.1	836,944	81.0	793,318	82.9	682,380	83.0
<hr/>										
Total loans	1,224,879	100.0%	1,075,182	100.0%	1,033,864	100.0%	956,586	100.0%	822,150	100.0%
<hr/>										
Less:										
Loans in process	109,004		55,468		46,744		45,834		36,048	
Deferred fees and discounts	834		779		906		1,274		2,002	
Allowance for loan losses	20,844		21,288		21,328		18,694		17,293	
<hr/>										
Total loans receivable, net	\$1,094,197		\$ 997,647		\$ 964,886		\$890,784		\$766,807	
<hr/>										

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The following table presents the contractual maturities of loans at December 31, 2003. 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)				
Real Estate Loans:				
Residential				
One- to four- family	\$ 11,622	\$ 21,606	\$ 125,762	\$ 158,990
Other residential	19,063	55,125	32,902	107,090

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Commercial	98,224	256,980	86,580	441,784
Residential construction:				
One- to four- family	79,092	13,034	---	92,126
Other residential	11,198	13,562	4,451	29,211
Commercial construction	142,665	22,716	14,830	180,211
Total real estate loans	361,864	383,023	264,525	1,009,412
Other Loans:				
Consumer loans:				
Guaranteed student loans	3,090	---	---	3,090
Automobile	6,950	57,433	14,445	78,828
Home equity and improvement	717	4,939	34,372	40,028
Other	1,482	---	---	1,482
Total consumer loans	12,239	62,372	48,817	123,428
Other commercial loans	40,919	45,625	5,495	92,039
Total other loans	53,158	107,997	54,312	215,467
Total loans	\$ 415,022	\$ 491,020	\$ 318,837	\$1,224,879

As of December 31, 2003, loans due after December 31, 2004 with fixed interest rates totaled \$254.6 million and loans due after December 31, 2004 with adjustable rates totaled \$555.3 million.

#### Environmental Issues

Loans secured with 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 of the Bank is aware of the risk that the Bank may be negatively affected by environmentally contaminated collateral and attempts to control such 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.

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### **Residential Real Estate Lending**

At December 31, 2003 and 2002, loans secured by residential real estate totaled \$266 million and \$257 million, respectively, and represented approximately 21.7% and 23.9%, 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 2002. This caused a higher than normal level of refinancing of adjustable-rate loans into fixed-rate loans during both years, 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 during 2003 and 2002.

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 months U.S. Dollar-denominated deposits in the London Market. 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 adjustable-rate mortgage loans 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. Further, the adjustable-rate mortgages offered by Great Southern, as well as by many other financial institutions, sometimes provide for initial rates of interest below the rates which would prevail were the index used for pricing applied initially. 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 has not experienced a significant increase in delinquencies in adjustable-rate mortgage loans due to a relatively low interest rate environment in recent years.

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.

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### Commercial Real Estate and Construction Lending

Commercial real estate lending has traditionally been a part of Great Southern's business activities. Since fiscal 1986, Great Southern has expanded its commercial real estate lending in order to increase the yield on, and the proportion of interest rate sensitive loans in, its portfolio. Great Southern expects to continue to maintain or increase the current percentage of commercial real estate loans in its total loan portfolio by originating loans secured by commercial real estate, subject to commercial real estate and other market conditions and to applicable regulatory restrictions. See "Government Supervision and Regulation" below.

At December 31, 2003 and 2002, loans secured by commercial real estate, excluding that which is under construction, totaled \$442 million and \$402 million, respectively, or approximately 36.1% and 37.4%, respectively, of the Bank's total loan portfolio. In addition, at December 31, 2003 and 2002, construction loans secured by projects under construction and the land on which the projects are located aggregated \$302 million and \$213 million, respectively, or 24.6% and 19.8%, 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 terms of one year or less. The construction loan agreements for one- to four-family projects generally provide that principal payments are required as individual condominium units or single-family houses are built and sold to a third party. This insures 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 and construction loan portfolio consists of loans with diverse collateral types. The following table sets forth loans that are secured by certain types of collateral at December 31, 2003. These collateral types represent the four highest percentage concentrations of commercial real estate and construction loan types to the total loan portfolio.

Collateral Type	Loan Balance	Percentage of Total Loan Portfolio	Non-Performing Loans at December 31, 2003
(Dollars in thousands)			
Motels/Hotels	\$112,762	9.2%	\$ 851
Health Care Facilities	\$ 90,667	7.4%	\$ ---
Subdivisions	\$ 55,392	4.5%	\$ 178
Recreational Facilities	\$ 41,082	3.4%	\$ ---

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The Bank's commercial real estate 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, 2003, this limit was approximately \$38.5 million. See "Government Supervision and Regulation." At December 31, 2003, the Bank was in compliance with the loans-to-one borrower limit. At December 31, 2003, the Bank's largest relationship totaled \$23.4 million. All loans included in this relationship were current at December 31, 2003.

Commercial real estate and construction lending generally affords the Bank an opportunity to receive interest at rates higher than those obtainable from residential lending and to receive higher origination and other loan fees. In addition, commercial real estate 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, 2003 and 2002, respectively, Great Southern had \$92.0 million and \$91.1 million in other commercial loans outstanding, or 7.5% and 8.4%, 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.

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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, 2003, Great Southern had 81 letters of credit outstanding in the aggregate amount of \$16.0 million. Approximately 80% of the aggregate amount of these letters of credit were secured, including one \$6.6 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, 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 \$123.4 million and \$112.4 million at December 31, 2003 and 2002, respectively, or 10.1% and 10.5%, 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. At December 31, 2003, the Bank had \$64.9 million of indirect auto, boat and recreational vehicle loans in its portfolio. While the Bank's initial concentrated effort has been on automobiles, the program is available for use with most tangible products where financing of the product is provided through the seller.

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 is generally 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.

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### **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. Walk-in customers and referrals from real estate brokers and builders are also important sources of loan originations.

Management does not expect the high level of originations experienced during the past five years to continue. However, as long as the lower interest rate environment continues, there is a higher level of financing and refinancing expected than would exist in a higher rate environment.

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 private investors, such as 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, do not have the capital to handle large commercial credits or 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 business 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 \$65.2 million of these loans in the fiscal year ended December 31, 2003 and \$21.2 million in the fiscal year ended December 31, 2002. Of the total \$88.0 million of purchased participation loans outstanding at December 31, 2003, \$25.8 million was purchased from one institution, secured by properties located in Missouri, Colorado, Nebraska and Texas. None of these loans were non-performing at December 31, 2003.

There have been no whole loan purchases by the Bank in the last five years. At December 31, 2003 and 2002, approximately \$616,000, or .1% and \$1.7 million, or .2%, 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.

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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 \$144.8 million, \$105.1 million and \$103.4 million during fiscal 2003, 2002 and 2001, 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 \$9.1 million, \$10.8 million and \$11.7 million during fiscal 2003, 2002 and 2001, 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 2003, 2002 and 2001 were \$2.2 million, \$1.6 million and \$1.8 million, respectively. Of these amounts, \$157,000, \$186,000 and \$179,000, respectively, were gains from the sale of guaranteed student loans and \$2.0 million, \$1.4 million and \$1.6 million, 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 \$39.3 million and \$36.8 million at December 31, 2003 and 2002, respectively, of loans owned by others. The servicing of these loans generated net servicing fees to the Bank for the years ended December 31, 2003 and 2002, of \$192,000 and \$57,000, 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 \$923,000, \$855,000 and \$784,000 for the years ended December 31, 2003, 2002 and 2001, 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.

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### 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, 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 monthly 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, 2003.

Loans Delinquent for 30-89 Days			
	Number	Amount	Percent of Total Delinquent Loans
(Dollars in thousands)			
Real Estate:			
One- to four-family	82	\$ 5,406	28%
Other residential	2	486	3
Commercial	10	4,990	26
Construction or development	22	4,775	25
Consumer and overdrafts	911	3,137	16
Other commercial	9	378	2

Total	1,036	\$19,172	100%
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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 general allowances 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 designated "special mention" by management. In addition, a bank's regulators may require the establishment of a general allowance for losses based on assets classified as "substandard" and "doubtful" or based on the general quality of the asset portfolio of the bank. Following are the total classified assets per the Bank's internal asset classification list. There were no significant off-balance sheet items classified at December 31, 2003.

Asset Category	Substandard	Doubtful	Loss	Total Classified	Allowance for Losses
(Dollars in thousands)					
Investment securities	\$ 1,500	\$---	\$ ---	\$ 1,500	\$ ---
Loans	14,251	---	84	14,335	20,844
Foreclosed assets	9,034	---	---	9,034	---
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$24,785	\$---	\$ 84	\$24,869	\$20,844
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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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.

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December 31,

	2003	2002	2001	2000	1999
(Dollars in thousands)					
Non-accruing loans:					
One- to four-family residential	\$ 1,935	\$ 1,999	\$ 1,333	\$ 2,171	\$ 880
One- to four-family construction	---	---	---	---	1
Other residential	---	---	---	---	1,002
Commercial real estate	2,658	1,619	3,407	4,112	4,371
Other commercial	1,949	1,353	1,021	1,236	444
Commercial construction	289	8,353	2,844	4,858	2,377
Consumer	213	173	393	109	146
<b>Total gross non-accruing loans</b>	<b>7,044</b>	<b>13,497</b>	<b>8,998</b>	<b>12,486</b>	<b>9,221</b>
Loans over 90 days delinquent still accruing interest:					
One- to four-family residential	10	---	---	---	49
Commercial real estate	---	640	489	---	---
Other commercial	---	---	---	---	---
Commercial construction	---	---	59	---	---
Consumer	337	384	---	---	---
<b>Total over 90 days delinquent still accruing loans</b>	<b>347</b>	<b>1,024</b>	<b>548</b>	<b>---</b>	<b>49</b>
Other impaired loans	---	---	---	---	---
<b>Total gross non-performing loans</b>	<b>7,391</b>	<b>14,521</b>	<b>9,546</b>	<b>12,486</b>	<b>9,270</b>
Foreclosed assets:					
One- to four-family residential	608	565	460	165	167
One- to four-family construction	543	160	468	508	---
Other residential	---	---	---	---	---
Commercial real estate	939	1,844	1,280	1,645	650
Commercial construction	6,277	495	---	---	---
<b>Total foreclosed assets</b>	<b>8,367</b>	<b>3,064</b>	<b>2,208</b>	<b>2,318</b>	<b>817</b>
Repossessions	667	1,264	849	370	---
<b>Total gross non-performing assets</b>	<b>\$16,425</b>	<b>\$18,849</b>	<b>\$12,603</b>	<b>\$15,174</b>	<b>\$10,087</b>
<b>Total gross non-performing assets as a percentage of average total assets</b>	<b>1.14%</b>	<b>1.40%</b>	<b>1.06%</b>	<b>1.50%</b>	<b>1.09%</b>

Gross impaired loans totaled \$7.4 million at December 31, 2003 and \$14.5 million at December 31, 2002.

For the year ended December 31, 2003, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to \$441,000. The amount that was included in interest income on these loans was \$304,000 for the year ended December 31, 2003.

The level of non-performing assets is primarily attributable to the Bank's commercial real estate, commercial construction, commercial business and one- to four-family residential lending activities. Commercial activities generally involve significantly greater credit risks than single-family residential lending. The level of non-performing assets increased at a rate greater than that of the Bank's commercial lending portfolio in the years ended December 31, 2002 and 2000, and at a rate less than that of the Bank's commercial lending portfolio in the years ended December 31, 2003, 2001 and 1999. For a discussion of significant non-performing assets, see "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 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 monthly in discussions with our senior 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 populations 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.

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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 portfolios on a monthly basis, we can adjust specific and inherent loss estimates based upon more current information.

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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 values to less than the carrying value of the asset. Senior management assesses the market value of each foreclosed asset individually.

The Bank has maintained a strong lending presence in the Branson area during recent years, primarily due to the substantial growth in the area. While management believes the loans it has funded have been originated pursuant to sound underwriting standards, and individually have no unusual credit risk, the relatively short period of time in which the Branson area has grown, the reduction in values of real estate and the lower than expected increase in tourists visiting the area during recent years, causes some concern as to the credit risk associated with the Branson area as a whole. Due to this concern and the overall growth of the loan portfolio, and due more specifically to the growth of the commercial business, consumer and commercial real estate loan portfolios, and the related inherent risks, management provided increased levels of loan loss allowances over the past few years.

At December 31, 2003 and 2002, Great Southern had an allowance for losses on loans of \$20.8 million and \$21.3 million, respectively, of which \$2.7 million and \$5.4 million, respectively, had been allocated as an allowance for specific loans, including \$1.1 million and \$1.9 million, respectively, allocated for impaired loans. The allowance is discussed further in Note 3 of the Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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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.

December 31,

	2003		2002		2001		2000		1999	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
(Dollars in thousands)										
One- to four-family residential and construction	\$ 1,485	20.5%	\$ 1,449	22.4%	\$ 1,388	23.2%	\$ 1,164	28.5%	\$ 798	30.1%
Other residential and construction	2,092	11.1	168	10.6	432	11.4	1,858	11.0	2,246	10.3
Commercial real estate	8,986	36.1	15,472	37.4	15,030	34.0	8,851	34.3	7,665	30.5
Commercial construction	4,875	14.7	953	10.7	1,452	12.3	3,215	7.7	3,427	7.8
Other commercial	1,625	7.5	740	8.4	692	9.4	1,370	8.9	1,590	12.2
Consumer and overdrafts	1,781	10.1	2,506	10.5	2,334	9.7	2,236	9.6	1,567	9.1
<b>Total</b>	<b>\$20,844</b>	<b>100.0%</b>	<b>\$21,288</b>	<b>100.0%</b>	<b>\$21,328</b>	<b>100.0%</b>	<b>\$18,694</b>	<b>100.0%</b>	<b>\$17,293</b>	<b>100.0%</b>

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

	December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Balance at beginning of period	\$21,288	\$21,328	\$18,694	\$17,293	\$16,928
Charge-offs:					
One- to four-family residential	369	211	338	254	114
Other residential	---	---	---	---	---
Commercial real estate	1,016	572	961	260	131
Construction	1,016	3,426	171	218	375
Consumer, overdrafts and other loans	3,646	2,770	2,473	2,116	1,870
Other commercial	1,497	735	958	303	316
Total charge-offs	7,544	7,714	4,901	3,151	2,806
Recoveries:					
One- to four-family residential	22	19	30	66	33
Other residential	---	---	---	---	---
Commercial real estate and construction	70	92	692	166	64
Consumer, overdrafts and other loans	2,089	1,561	1,270	1,019	793
Other commercial	119	202	343	195	219
Total recoveries	2,300	1,874	2,335	1,446	1,109
Net charge-offs	5,244	5,840	2,566	1,705	1,697
Provision for losses on loans	4,800	5,800	5,200	3,106	2,062
Balance at end of period	\$20,844	\$21,288	\$21,328	\$18,694	\$17,293
Ratio of net charge-offs to average loans outstanding	0.50%	0.58%	0.27%	0.20%	0.23%

**Investment Activities**

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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, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, the Bank held approximately \$53.9 million and \$52.6 million, respectively, in principal amount of investment securities which the Bank intends to hold until maturity. As of such dates, these securities had market values of approximately \$56.6 million and \$55.9 million, respectively. In addition, as of December 31, 2003 and 2002, the Company held approximately \$259.6 million and \$236.2 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.

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. The table is based on information prepared in accordance with generally accepted accounting principles.

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December 31, 2003				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
(Dollars in thousands)				
<b>AVAILABLE-FOR-SALE SECURITIES:</b>				
U.S. government agencies	\$ 53,084	\$ ---	\$1,160	\$ 51,924
Collateralized mortgage obligations	8,821	124	---	8,945
Mortgage-backed securities	170,596	1,547	640	171,503
Corporate bonds	8,408	831	11	9,228
States and political subdivisions	7,437	23	76	7,384
Equity securities	11,354	38	776	10,616
Total available-for-sale securities	\$259,700	\$2,563	\$2,663	\$259,600
<b>HELD-TO-MATURITY SECURITIES:</b>				
States and political subdivisions and industrial revenue bonds	\$53,944	\$2,614	\$ ---	\$ 56,558
Total held-to-maturity securities	\$53,944	\$2,614	\$ ---	\$ 56,558

December 31, 2002				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
(Dollars in thousands)				



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AVAILABLE-FOR-SALE SECURITIES:

U.S. government agencies	\$ 11,000	\$ ---	\$ 2	\$ 10,998
Collateralized mortgage obligations	5,082	---	11	5,071
Mortgage-backed securities	195,904	3,093	33	198,964
Corporate bonds	9,156	910	12	10,054
Equity securities	11,267	181	266	11,182
	<hr/>	<hr/>	<hr/>	<hr/>
Total available-for-sale securities	\$232,409	\$4,184	\$ 324	\$236,269
	<hr/>	<hr/>	<hr/>	<hr/>

HELD-TO-MATURITY SECURITIES:

States and political subdivisions and industrial revenue bonds	\$ 52,587	\$3,313	\$ ---	\$ 55,900
	<hr/>	<hr/>	<hr/>	<hr/>
Total held-to-maturity securities	\$ 52,587	\$3,313	\$ ---	\$ 55,900
	<hr/>	<hr/>	<hr/>	<hr/>

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December 31, 2001

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	<hr/>	<hr/>	<hr/>	<hr/>
	(Dollars in thousands)			
AVAILABLE-FOR-SALE SECURITIES:				
U.S. government agencies	\$ 84,719	\$ 669	\$ ---	\$ 85,388
Collateralized mortgage obligations	5,188	---	71	5,117
Mortgage-backed securities	120,544	28	1,147	119,425
Corporate bonds	8,311	417	---	8,728
Equity securities	13,967	1,214	34	15,147
	<hr/>	<hr/>	<hr/>	<hr/>
Total available-for-sale securities	\$232,729	\$2,328	\$1,252	\$233,805
	<hr/>	<hr/>	<hr/>	<hr/>
HELD-TO-MATURITY SECURITIES:				
States and political subdivisions and industrial revenue bonds	\$ 37,465	\$3,280	\$ 45	\$ 40,700
	<hr/>	<hr/>	<hr/>	<hr/>
Total held-to-maturity securities	\$ 37,465	\$3,280	\$ 45	\$ 40,700
	<hr/>	<hr/>	<hr/>	<hr/>

The following table presents the contractual maturities and weighted average tax-equivalent yields of available-for-sale securities at December 31, 2003. The table is based on information prepared in accordance with generally accepted accounting principles.

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	Cost	Amortized Yield	Approximate Fair Value
(Dollars in thousands)			
After one through five years	\$ 246	9.01%	\$ 265
After ten years	68,683	5.29%	68,272
Securities not due on a single maturity date	179,417	4.08%	180,447
Equity securities	11,354	3.75%	10,616
Total	\$259,700		\$259,600

	After One Through Five Years	After Five Through Ten Years	After Ten Years	Securities Not Due on a Single Maturity Date	Total
(Dollars in thousands)					
U.S. government agencies	\$ ---	\$ ---	\$53,084	\$ ---	\$ 53,084
Collateralized mortgage obligations	---	---	---	8,821	8,821
Mortgage-backed securities	---	---	---	170,596	170,596
States and political subdivisions	---	---	7,437	---	7,437
Corporate bonds	246	--	8,162	---	8,408
Equity securities	4	---	11,350	---	11,354
Total	\$ 250	\$ ---	\$80,033	\$179,417	\$259,700

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The following table presents the contractual maturities and weighted average tax-equivalent yields of held-to-maturity securities at December 31, 2003. The table is based on information prepared in accordance with generally accepted accounting principles.

	Cost	Amortized Yield	Approximate Fair Value
(Dollars in thousands)			
States and political subdivisions and industrial revenue bonds:			
After one through five years	\$ 223	8.98%	\$ 224
After five through ten years	8,881	11.16%	9,485

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After ten years	44,840	7.69%	46,849
	<hr/>		<hr/>
Total	\$53,944		\$56,558
	<hr/>		<hr/>

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2003:

Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 51,924	\$1,160	\$ ---	\$ ---	\$ 51,924	\$1,160
Mortgage-backed securities	70,294	631	955	9	71,249	640
State and political subdivisions	3,192	76	---	---	3,192	76
Equity securities	7,385	115	2,814	661	10,199	776
Corporate bonds and ABS	---	---	501	11	501	11
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$132,795	\$1,982	\$4,270	\$681	\$137,065	\$2,663
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**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, Iowa ("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. 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, individual retirement accounts and certificates of deposit obtained directly from depositors through rates posted on an internet website.

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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. The table is based on information prepared in accordance with generally accepted accounting principles.

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December 31,

	2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)						
Time deposits:						
0.00% - 1.99%	\$ 173,617	15.29%	\$ 38,962	3.85%	\$ 7,538	.85%
2.00% - 2.99%	122,575	10.79	208,708	20.64	59,443	6.73
3.00% - 3.99%	131,248	11.56	168,186	16.63	94,097	10.65
4.00% - 4.99%	96,489	8.50	62,045	6.14	145,515	16.47
5.00% - 5.99%	60,259	5.30	91,892	9.08	118,769	13.44
6.00% - 6.99%	80,618	7.10	119,145	11.78	212,617	24.06
7.00% and above	6,224	0.55	10,298	1.02	24,527	2.77
Total Time deposits	671,030	59.09	699,236	69.14	662,506	74.97
Non-interest-bearing demand deposits	120,790	10.64	94,508	9.35	62,131	7.03
Savings deposits (1.53%-1.23%-1.37%)	1,140	0.10	876	.08	980	.11
Interest-bearing demand deposits (.92%-1.08%-1.02%)	342,687	30.17	216,699	21.43	158,067	17.89
	1,135,647	100.00%	1,011,319	100.00%	883,684	100.00%
Interest rate swap fair value adjustment	1,780		10,638		3,186	
Total Deposits	\$1,137,427		\$1,021,957		\$886,870	

A table showing maturity information for the Bank's time deposits as of December 31, 2003, is presented in Note 6 of the Notes to Consolidated Financial Statements.

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 passbook and 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.

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The following table sets forth the time remaining until maturity of the Bank's time deposits as of December 31, 2003. The table is based on information prepared in accordance with generally accepted accounting principles.

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Maturity

	3 Months or Less	Over 3 Months to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
(Dollars in thousands)					
Time deposits:					
Less than \$100,000	\$ 72,683	\$52,037	\$63,122	\$ 56,754	\$244,596
\$100,000 or more	22,489	16,657	21,379	18,540	79,065
Brokered	16,085	8,576	8,185	296,507	329,353
Public funds <sup>(1)</sup>	6,656	9,608	1,297	455	18,016
<b>Total</b>	<b>\$117,913</b>	<b>\$86,878</b>	<b>\$93,983</b>	<b>\$372,256</b>	<b>\$671,030</b>

<sup>(1)</sup> 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, 2003 and 2002, the Bank had approximately \$329.4 million and \$339.8 million in brokered deposits, respectively.

Unlike non-brokered deposits where the deposit amount can be withdrawn 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.

The Company uses interest rate swaps to manage its interest rate risks from recorded financial liabilities. During fiscal 2003 and 2002, the Company entered into interest rate swap agreements with the objective of hedging against the effects of changes in the fair value of its liabilities for fixed rate brokered certificates of deposit caused by changes in market interest rates. In fiscal 2003 and 2002, the Company's interest rate swaps reduced interest expense on deposits by approximately \$10.3 million and \$10.4 million, respectively, due to continued low interest rates.

*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, 2003, the amount outstanding was \$204.8 million.

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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 disburse one or several loans but the permanent source of funds will not be available for a few days; (2) a temporary spike in interest rates on other funding sources that are being used; or (3) the need to purchase a

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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, 2003 that would have allowed approximately \$107.6 million to be borrowed under the above arrangement. At December 31, 2003, the amount outstanding was \$0.

Previously, the Company had a line of credit available with a commercial bank. The amount available under the line of credit was \$12,000,000 at December 31, 2002. There were no amounts outstanding under the line at December 31, 2002. Upon maturity of the note on November 1, 2003, the Company elected to not renew the line of credit.

Great Southern Capital Trust I ("GSBCP"), a Delaware business trust subsidiary of the Company, has 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 a 9.00% Subordinated Debenture from the Company. The Company's proceeds from the issuance of the Subordinated Debentures to GSBCP, net of underwriting fees and offering expenses, were \$16.3 million. The Company records distributions payable on the trust preferred securities as interest expense for financial reporting purposes. The proceeds from the offering were used to reduce the Company's indebtedness under the previous note payable to bank to \$0. The trust preferred securities mature in 2031 and are redeemable at the Company's option beginning in 2006. The trust preferred securities qualify as Tier I capital for regulatory purposes.

The Company entered into an interest rate swap agreement to effectively convert the trust preferred securities, which are fixed rate debt, into variable rates of interest. The variable rate is three-month LIBOR plus 202 basis points, adjusting quarterly. The initial rate was 6.25% and the rate at December 31, 2003 and 2002, was 3.20% and 3.87%, 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. The table is based on information prepared in accordance with generally accepted accounting principles.

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in thousands)		
FHLBank Advances:			
Maximum balance	\$231,125	\$270,544	\$265,321
Average balance	189,194	218,564	214,325
Weighted average interest rate	2.85%	3.14%	4.82%

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The following table sets forth certain information as to the Company's FHLBank advances at the dates indicated. The table is based on information prepared in accordance with generally accepted accounting principles.

	December 31,		
	2003	2002	2001
	(Dollars in thousands)		
FHLBank advances	\$204,787	\$206,226	\$258,743
Weighted average interest rate of FHLBank advances	2.55%	2.90%	3.03%

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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 federal funds purchased, securities sold under reverse repurchase agreements, note payable to bank, and trust preferred securities. The tables are based on information prepared in accordance with generally accepted accounting principles.

Year Ended December 31, 2003

	Maximum Balance	Average Balance	Weighted Average Interest Rate
(Dollars in thousands)			
Other Borrowings:			
Federal funds purchased	\$14,400	\$ 3,295	1.33%
Securities sold under reverse repurchase agreements	62,405	48,066	1.12
Trust preferred securities	17,250	17,250	3.44
Other	42	81	.72
Total		\$68,692	1.71%
Total maximum month-end balance	\$83,590		

Year Ended December 31, 2002

	Maximum Balance	Average Balance	Weighted Average Interest Rate
(Dollars in thousands)			
Other Borrowings:			
Federal funds purchased	\$41,000	\$11,284	2.00%
Securities sold under reverse repurchase agreements	38,504	22,037	1.31
Trust preferred securities	17,250	17,250	4.16
Other	2	59	.64
Total		\$50,630	2.43%
Total maximum month-end balance	\$71,462		

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Year Ended December 31, 2001

	Maximum Balance	Average Balance	Weighted Average Interest Rate

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(Dollars in thousands)			
Other Borrowings:			
Federal funds purchased	\$113,100	\$45,550	3.37%
Securities sold under reverse repurchase agreements	20,852	15,128	3.18
Trust preferred securities	17,250	11,966	5.68
Other	16,447	6,155	7.58
Total		\$78,799	4.02%
Total maximum month-end balance	\$144,586		

The following tables set forth year-end balances and weighted average interest rates of the Company's other borrowings at the dates indicated. The tables are based on information prepared in accordance with generally accepted accounting principles.

December 31, 2003		
	Balance	Weighted Average Interest Rate
(Dollars in thousands)		
Other borrowings:		
Securities sold under reverse repurchase agreements	\$53,534	0.96%
Trust preferred securities	18,263	3.20
Total	\$71,797	
		1.51%

December 31, 2002		
	Balance	Weighted Average Interest Rate
(Dollars in thousands)		
Other borrowings:		
Federal funds purchased	\$ 4,800	1.50%
Securities sold under reverse repurchase agreements	38,503	1.02
Trust preferred securities	18,964	3.88
Other	1	---
Total	\$62,268	
		1.88%



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December 31, 2001		
Balance	Weighted Average Interest Rate	
(Dollars in thousands)		
Other borrowings:		
Federal funds purchased	\$37,900	1.98%
Securities sold under reverse repurchase agreements	19,866	.96
Trust preferred securities	17,160	4.62
Other	(3)	1.66
<b>Total</b>	<b>\$74,923</b>	<b>2.32%</b>

### Subsidiaries

*Great Southern.* As a Missouri-chartered trust company, Great Southern may invest up to 3%, which is equal to \$50.0 million, of its assets in service corporations. At December 31, 2003, 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, 2003, the Bank's total investment in Great Southern Financial Corporation ("GSFC") was \$2.2 million. GSFC is incorporated under the laws of the State of Missouri, and does business as Great Southern Insurance and Great Southern Travel. These subsidiaries are primarily engaged in the activities described below.

*Great Southern Real Estate Development Corporation.* Great Southern Real Estate Development Corporation was organized in 2003. Generally, its purpose 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 2003, Real Estate Development operated one motel which was foreclosed and subsequently sold. Real Estate Development had a net loss of \$479,000 in the year ended December 31, 2003.

*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 \$195,000 and \$120,000 in the years ended December 31, 2003 and 2002, respectively.

*Travel Agency.* Great Southern Travel, a division of GSFC, was organized in 1976. At December 31, 2003, 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 ten full-time locations, including a facility at the Springfield-Branson Regional Airport, and additional part-time locations. It engages in personal, commercial and group travel services. Great Southern Travel had net income of \$209,000 and \$133,000 in the years ended December 31, 2003 and 2002, respectively.

*GSB One, L.L.C.* At December 31, 2003, the Bank's total investment in GSB One, L.L.C. ("GSB One") and GSB Two, L.L.C. ("GSB Two") was \$530 million. The capital contribution was made by transferring participations in loans to GSB Two. GSB One is a Missouri limited liability company that was incorporated in March of 1998. Currently the only activity of this company is the ownership of GSB Two.

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*GSB Two, L.L.C.* This is a Missouri limited liability company that was incorporated 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 \$24.2 million and \$23.4 million in the years ended December 31, 2003 and 2002, 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, 2003, the Bank and its affiliates had a total of 627 employees, including 147 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.

Bancorp 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 Bancorp, 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. In addition, there are numerous governmental requirements and regulations that affect the activities of the Company and its subsidiaries. The following is a brief summary of certain aspects of the regulation of the Company and Great Southern 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.

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Under FRB policy, a financial 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 holding company to 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 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.

Additionally, 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.

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Federal law also authorizes the Office of the Comptroller of the Currency ("OCC") 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 Great Southern to its directors and executive officers are subject to FRB regulations restricting loans and other transactions with affiliated persons of Great Southern. 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. 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 earning 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.

Bank holding companies are 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 I 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 I risk-based ratio of 4% or greater; and (iii) has a leverage ratio of 4% or greater. As of December 31, 2003, the Bank was "well capitalized."

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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. As of December 31, 2003, the Company was "well capitalized."

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

The FDIC maintains two separate deposit insurance funds: the Bank Insurance Fund (the "BIF") and the Savings Association Insurance Fund (the "SAIF"). Great Southern's depositors are insured by the SAIF up to \$100,000 per insured account (as defined by law and regulation). This insurance is backed by the full faith and credit of the United States Government.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by SAIF-insured associations. 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 SAIF. The FDIC also has the authority to take enforcement actions against banks and savings associations.

Great Southern pays annual assessments for SAIF insurance. Under current FDIC regulations, the annual SAIF assessment rate is based, in part, on the degree of risk to the deposit insurance fund that, in the opinion of the FDIC, is presented by a particular depository institution compared to other depository institutions. The FDIC uses a matrix having as variables the level of capitalization of a particular institution and the level of supervision that its operations require; and the rates determined in this fashion range from 0.00% of deposits for the least risky to 0.27% for the most risky. In establishing the SAIF assessment rate, the FDIC is required to consider the SAIF's expected operating expenses, case resolution expenditures and income and the effect of the assessment rate on SAIF members' earnings and capital. There is no cap on the amount the FDIC may increase the SAIF assessment rate. The Bank currently has a risk based assessment rate of 0.00%. In addition, the FDIC is authorized to raise the assessment rates in certain instances. Any increases in the assessments would negatively impact the earnings of Great Southern.

The FDIC collects assessments against BIF and SAIF assessable deposits to service the debt on bonds issued during the 1980's to resolve the thrift bailout. For the quarter ended December 31, 2003, the assessment rate for both BIF and SAIF insured institutions was 1.52 basis points per \$100 of assessable deposits.

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.

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### **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, 2003, 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, 2003, Great Southern had \$11.8 million in FHLBank stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLBank stock. Over the past five years, such dividends have averaged 4.75% and were 3.00% for year the ended December 31, 2003.

### **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.

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### **Bad Debt Deduction**

Legislation passed by Congress and signed by the President repealed the bad debt reserve method of accounting for bad debts by large thrifts for taxable years beginning after 1995 (year ended June 30, 1997 for the Bank). The legislation requires applicable excess reserves accumulated after 1987 (year ended June 30, 1988 for the Bank) be recaptured and restored to income over a six year period with the first year beginning after 1995 (year ended June 30, 1997 for the Bank), and eliminates recapture of the applicable excess reserves accumulated prior to 1988 for thrifts converting to bank charters. The post 1987 recapture may be delayed for a one- or two-year period if certain residential loan origination requirements are met. The Bank met the residential loan origination requirements and delayed the recapture for two years. The amount of post 1987 recapture for the Bank is estimated at \$5.2 million which created tax of approximately \$1.8 million, or \$300,000 per year for each of the six years. The \$1.8 million of tax has been accrued by the Bank in previous periods and would not be reflected in earnings when paid. The amount of the deferred tax liability was fully recaptured by December 31, 2003.

As of December 31, 2003 and 2002, retained earnings includes approximately \$17,500,000 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 \$6,475,000 at December 31, 2003 and 2002.

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 pa