

GREAT SOUTHERN BANCORP INC
Form 10-K
March 17, 2008

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

43-1524856
(IRS Employer Identification Number)

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

65804
(Zip Code)

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

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

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

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

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

Yes [] No [X]

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

Yes [] No [X]

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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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

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

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

Yes No

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on June 30, 2007, computed by reference to the closing price of such shares on that date, was \$279,762,987. At March 13, 2008, 13,380,303 shares of the Registrant's common stock were outstanding.

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PART I

BUSINESS.

ITEM

1.

THE COMPANY

Great Southern Bancorp, Inc.

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

As a Maryland corporation, the Company is authorized to engage in any activity that is permitted by the Maryland General Corporation Law and is not prohibited by law or regulatory policy. The Company currently conducts its business as a financial holding company. Through the financial holding company structure, it is possible to expand the size and scope of the financial services offered by the Company beyond those offered by the Bank. The financial holding company structure provides the Company with greater flexibility than the Bank has to diversify its business activities, through existing or newly formed subsidiaries, or through acquisitions or mergers of other financial institutions as well as other companies. At December 31, 2007, Bancorp's consolidated assets were \$2.43 billion, consolidated net loans were \$1.81 billion, consolidated deposits were \$1.76 billion and consolidated stockholders' equity was \$190 million. The assets of the Company consist primarily of the stock of Great Southern, available-for-sale securities, minority interests in a local trust company and a merchant banking company and cash.

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

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

Great Southern Bank

Great Southern was formed as a Missouri-chartered mutual savings and loan association in 1923, and, in 1989, converted to a Missouri-chartered stock savings and loan association. In 1994, Great Southern changed to a federal savings bank charter and then, on June 30, 1998, changed to a Missouri-chartered trust company (the equivalent of a commercial bank charter). Headquartered in Springfield, Missouri, Great Southern offers a broad range of banking services through its 38 branches located in southwestern and central Missouri and the Kansas City, Missouri area. At December 31, 2007, the Bank had total assets of \$2.43 billion, net loans of \$1.81 billion, deposits of \$1.77 billion and stockholders' equity of \$215.6 million, or 8.9% of total assets. Its deposits are insured by the Deposit Insurance Fund ("DIF") to the maximum levels permitted by the Federal Deposit Insurance Corporation ("FDIC").

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

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

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

Forward-Looking Statements

When used in this Form 10-K and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result" "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Company's ability to access cost-effective funding, fluctuations in real estate values and both residential and commercial real estate market conditions, demand for loans and deposits in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

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

Internet Website

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

Primary Market Area

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

Great Southern's largest concentration of loans and deposits is in the Greater Springfield area. With a population of approximately 407,000, the Greater Springfield area is the third largest metropolitan area in Missouri. Employment in this area is diversified, including small and medium-sized manufacturing concerns, service industries, especially in the resort and leisure activities sectors, agriculture, the federal government, and a major state university along with other smaller universities and colleges. Springfield is also a regional health care center with two major hospitals that employ a total of more than 14,000 people. The unemployment rate in this area is, and has consistently been, below the national average.

Beyond the significant concentration of loans in the Greater Springfield market, the Bank's loan portfolio is geographically diversified with various loan concentrations in several regional markets in Missouri, Kansas and Northwest Arkansas. The portfolio diversification is due in part to the Company's initiative during the last five years to open loan production offices (LPOs) in high growth markets. In 2003, offices were opened in Overland Park, Kan., and Rogers, Ark, which serves the Kansas City metropolitan area and Northwest Arkansas region, respectively. In 2005, a LPO in Creve Coeur, Mo., was opened serving the St. Louis metropolitan area; and in 2006, the Company opened an office in Columbia, Mo., which serves the Central Missouri region, including Jefferson City

and the Lake of the Ozarks region. Before opening the LPOs, Great Southern historically served commercial lending needs in the St. Louis, Kansas City, Lake of the Ozarks and Northwest Arkansas regions from its Springfield office. The Bank's familiarity with these four 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 client relationships and attract new business. Managed by seasoned commercial lenders who have personal experience and knowledge in their respective markets, the offices offer all Great Southern commercial lending services. Underwriting of all loan production in these regions is performed in Springfield, so credit decisions are consistent across all markets.

As of December 31, 2007, the Company's total loan portfolio balance was \$1.84 billion. Geographically, the total loan portfolio consists of loans collateralized in the following regions (including loan balance and percentage of total loans): Springfield (\$565 million, 30%); St. Louis (\$255 million, 13%); Branson (\$214 million, 12%); Northwest Arkansas (\$203 million, 11%); Kansas City (\$113 million, 6%); Central Missouri (\$67 million, 4%); other Missouri regions (\$158 million, 9%), other Kansas regions (\$49 million, 3%), and other out-of-state regions (\$216 million, 12%).

As noted above, Great Southern has historically served commercial real estate and construction needs in both the St. Louis and Kansas City markets. Concentrations of loans have increased in both of these major metropolitan markets with the establishment of LPOs. Both markets have diverse and relatively stable economies and are currently experiencing some slow-down in home sales and residential construction. The Kansas City market has experienced some weakness in the commercial real estate market while the St. Louis market remained relatively positive in this sector, according to the March 5, 2008, Beige Book released by the Federal Reserve.

The Company has a long history of lending in the Branson market. The region is a vacation and entertainment center, attracting tourists to its theme parks, resorts, music and novelty shows, and other recreational facilities. In the mid-1990's, the region experienced overbuilding in commercial and residential properties which created downward pressure on property values. In recent years, commercial real estate values have stabilized and residential real estate demand and values have shown improvement. Branson is currently experiencing significant growth again due in part to a large retail and hotel/convention center development that opened in Branson's historic downtown. This project has created hundreds of new jobs in the area. In addition, several large national retailers have opened or will soon open stores in Branson.

The Northwest Arkansas region continues to be a burgeoning center of economic activity and growth. Home to the world's largest retailer, Wal-Mart, Inc., the country's largest poultry producer, Tyson Foods, Inc., and JB Hunt, one of the country's largest trucking firms, the region was recently ranked 21st in the Milken Institute's "2007 Best Performing Cities Index." The Index ranks U.S. metropolitan areas based on their ability to create and sustain jobs and includes both long-term and short-term measurements of employee and salary growth. While the area continues to experience significant growth, the region is currently experiencing some effects of overbuilding in the commercial and residential sectors.

Recent Acquisitions

In early 2007, Great Southern purchased The Travel Company, a travel agency with two locations in the greater St. Louis, Missouri area. The agency serves both leisure and corporate travel needs in the St. Louis market.

Lending Activities

General

From its beginnings in 1923 through the early 1980s, Great Southern primarily made long-term, fixed-rate residential real estate loans that it retained in its loan portfolio. Beginning in the early 1980s, Great Southern increased its efforts to originate short-term and adjustable-rate loans. Beginning in the mid-1980s, Great Southern increased its efforts to originate commercial real estate and other residential loans, primarily with adjustable rates or shorter-term fixed rates. In addition, some competitor banking organizations 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 the residential and commercial real estate lending areas as well as in the origination of commercial business and consumer loans, primarily in the indirect automobile area. 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, 2007, the balance of participation loans purchased was \$49.5 million, or 2.4% of the total loan portfolio. None of these participation loans were non-performing at December 31, 2007.

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 that it originates in its portfolio. To date, Great Southern has not experienced problems selling these loans in the secondary market.

Another principal lending activity of Great Southern is the origination of commercial real estate and commercial construction loans. Since the early 1990s, this area of lending has been an increasing percentage of the loan portfolio and accounted for approximately 48% of the portfolio at December 31, 2007.

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

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

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

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

Loan Portfolio Composition

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

	2007		2006		December 31, 2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
(Dollars in thousands)										
Real Estate Loans:										
Residential										
One- to four- family	\$ 191,970	9.1%	\$ 176,630	9.1%	\$ 173,135	9.7%	\$ 171,197	11.6%	\$ 158,990	12.4%
Other residential (multi-family)	87,177	4.1	73,366	3.8	105,845	6.0	117,755	8.0	107,090	8.4
Commercial and industrial revenue bonds	532,797	25.3	529,046	27.4	553,195	31.2	526,776	35.6	494,158	38.7
Construction:										
One- to four-family	318,131	15.1	347,287	18.0	246,912	13.9	160,161	10.8	92,126	7.2
Other residential	83,720	4.0	69,077	3.6	72,262	4.1	40,587	2.7	29,211	2.3
Commercial construction	517,208	24.6	443,286	22.9	382,651	21.6	230,103	15.5	180,211	14.1
Total real estate loans	1,731,003	82.2	1,638,692	84.8	1,534,000	86.5	1,246,579	84.2	1,061,786	83.1
Other Loans:										
Consumer loans:										
Guaranteed student loans	3,342	.2	3,592	.2	3,345	.2	2,976	.2	3,090	.3
Automobile, boat, etc.	112,984	5.4	96,242	5.0	84,092	4.7	80,517	5.4	78,828	6.2
Home equity and improvement	44,287	2.1	42,824	2.2	48,992	2.8	45,703	3.1	40,028	3.1
Other	4,161	.2	2,152	.1	1,371	.1	1,318	.1	1,482	.1
	164,774	7.9	144,810	7.5	137,800	7.8	130,514	8.8	123,428	9.7

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Total consumer loans										
Other commercial loans	207,059	9.9	149,593	7.7	102,034	5.7	103,635	7.0	92,039	7.2
Total other loans	371,833	17.8	294,403	15.2	239,834	13.5	234,149	15.8	215,467	16.9
Total loans	2,102,836	100.0%	1,933,095	100.0%	1,773,834	100.0%	1,480,728	100.0%	1,277,253	100.0%
Less:										
Loans in process	254,562		229,794		233,213		121,677		109,004	
Deferred fees and discounts	2,704		2,425		1,902		1,054		834	
Allowance for loan losses	25,459		26,258		24,549		23,489		20,844	
Total loans receivable, net	\$ 1,820,111		\$ 1,674,618		\$ 1,514,170		\$ 1,334,508		\$ 1,146,571	

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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,									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Fixed-Rate Loans:										
Real Estate Loans										
Residential										
One- to four- family	\$ 48,790	2.3%	\$ 33,378	1.7%	\$ 22,269	1.3%	\$ 25,266	1.7%	\$ 26,136	2.1%
Other residential	34,798	1.7	31,575	1.6	38,473	2.2	65,646	4.4	51,961	4.1
Commercial	158,223	7.5	117,701	6.1	130,316	7.3	110,414	7.5	125,949	9.9
Residential construction:										
One- to four- family	17,872	.8	9,740	.5	18,224	1.0	83,306	5.6	59,070	4.6
Other residential	4,040	.2	11,946	.6	16,166	.9	11,880	.8	8,165	.6
Commercial construction	12,483	.6	8,495	.4	13,980	.8	24,391	1.7	22,007	1.7
Total real estate loans	276,206	13.1	211,835	10.9	239,428	13.5	320,903	21.7	293,288	23.0
Consumer loans	123,232	5.9	104,789	5.4	91,639	5.2	87,868	5.9	85,710	6.7
Other commercial loans	33,903	1.6	26,173	1.4	20,374	1.1	36,660	2.5	29,242	2.3
Total fixed-rate loans	433,341	20.6	342,797	17.7	351,441	19.8	445,431	30.1	408,240	32.0
Adjustable-Rate Loans:										
Real Estate Loans										
Residential										
One- to four- family	143,180	6.8	143,252	7.4	150,866	8.5	145,931	9.9	132,854	10.4
	52,379	2.5	41,791	2.2	67,372	3.8	52,109	3.5	55,129	4.3

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Other residential										
Commercial	374,574	17.8	411,346	21.3	422,879	23.8	416,362	28.1	368,210	28.8
Residential construction:										
One- to four-family	300,259	14.3	337,547	17.4	228,688	12.9	76,855	5.2	33,056	2.6
Other residential	79,680	3.8	58,131	3.0	56,096	3.2	28,707	1.9	21,046	1.6
Commercial construction	504,725	24.0	434,791	22.5	368,671	20.8	205,712	13.9	158,204	12.4
Total real estate loans	1,454,797	69.2	1,426,858	73.8	1,294,572	73.0	925,676	62.5	768,499	60.1
Consumer loans	41,542	2.0	40,020	2.1	46,161	2.6	42,646	2.9	37,718	3.0
Other commercial loans	173,156	8.2	123,420	6.4	81,660	4.6	66,975	4.5	62,796	4.9
Total adjustable-rate loans	1,669,495	79.4	1,590,298	82.3	1,422,393	80.2	1,035,297	69.9	869,013	68.0
Total loans	2,102,836	100.0%	1,933,095	100.0%	1,773,834	100.0%	1,480,728	100.0%	1,277,253	100.0%
Less:										
Loans in process	254,562		229,794		233,213		121,677		109,004	
Deferred fees and discounts	2,704		2,425		1,902		1,054		834	
Allowance for loan losses	25,459		26,258		24,549		23,489		20,844	
Total loans receivable, net	\$ 1,820,111		\$ 1,674,618		\$ 1,514,170		\$ 1,334,508		\$ 1,146,571	

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The following table presents the contractual maturities of loans at December 31, 2007. 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	\$ 33,820	\$ 23,211	\$ 134,939	\$ 191,970
Other residential	19,013	53,761	14,403	87,177
Commercial	163,574	258,851	110,372	532,797
Residential construction:				
One- to four- family	245,266	65,010	7,855	318,131
Other residential	41,280	38,400	4,040	83,720
Commercial construction	399,771	98,759	18,678	517,208
Total real estate loans	902,724	537,992	290,287	1,731,003
Other Loans:				
Consumer loans:				
Guaranteed student loans				
	3,342	---	---	3,342
Automobile	16,433	40,946	55,605	112,984
Home equity and improvement	3,192	12,585	28,510	44,287
Other	4,161	---	---	4,161
Total consumer loans	27,128	53,531	84,115	164,774
Other commercial loans	103,789	71,169	32,101	207,059
Total other loans	130,917	124,700	116,216	371,833
Total loans	\$ 1,033,641	\$ 662,692	\$ 406,503	\$ 2,102,836

As of December 31, 2007, loans due after December 31, 2008 with fixed interest rates totaled \$346.1 million and loans due after December 31, 2008 with adjustable rates totaled \$723.1 million.

Environmental Issues

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

laws.

Management is aware of the risk that the Bank may be negatively affected by environmentally contaminated collateral and attempts to control this risk through commercially reasonable methods, consistent with guidelines arising from applicable government or regulatory rules and regulations, and to a more limited extent publications of the lending industry. Management currently is unaware (without, in many circumstances, specific inquiry or investigation of existing collateral, some of which was accepted as collateral before risk controlling measures were implemented) of any environmental contamination of real property securing loans in the Bank's portfolio that would subject the Bank to any material risk. No assurance can be made, however, that the Bank will not be adversely affected by environmental contamination.

7

Residential Real Estate Lending

At December 31, 2007 and 2006, loans secured by residential real estate, excluding that which is under construction, totaled \$279 million and \$250 million, respectively, and represented approximately 13.2% and 12.9%, 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 through 2004. This caused a higher than normal level of refinancing of adjustable-rate loans into fixed-rate loans primarily during 2003 and the early portion of 2004, most of which were sold in the secondary market, and accounted for the decline in the Bank's one- to four-family residential real estate loan portfolio prior to 2004. As rates began to move up in 2004 through 2007, fewer loans were refinanced and paid off early. In addition, in some instances borrowers opted for adjustable-rate loans which the Bank generally retains in its portfolio. Other residential real estate loan balances decreased in 2005 and 2006, primarily as a result of loans secured by apartments and other multi-family units being refinanced elsewhere. Other residential real estate loan balances increased somewhat in 2007, although not back to levels seen in 2003 through 2005.

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

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

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

declare the unpaid principal balance due and payable upon the sale of the property securing the loan. The Bank may enforce these due on sale clauses to the extent permitted by law.

Commercial Real Estate and Construction Lending

Commercial real estate lending has been a significant part of Great Southern's business activities since the mid-1980's. Great Southern does commercial real estate lending in order to increase the yield on, and the proportion of interest rate sensitive loans in, its portfolio. Great Southern expects to maintain or increase the current percentage of commercial real estate and commercial construction loans in its total loan portfolio subject to commercial real estate and other market conditions and to applicable regulatory restrictions. See "Government Supervision and Regulation" below.

At December 31, 2007 and 2006, loans secured by commercial real estate (excluding that which is under construction) totaled \$533 million and \$529 million, respectively, or approximately 25.3% and 27.4%, respectively, of the Bank's total loan portfolio. In addition, at December 31, 2007 and 2006, construction loans secured by projects under construction and the land on which the projects are located aggregated \$919 million and \$860 million, respectively, or 43.7% and 44.5%, respectively, of the Bank's total loan portfolio. The majority of the Bank's commercial real estate loans have been originated with adjustable rates of interest, most of which are tied to the Bank's prime rate. Substantially all of these loans were originated with loan commitments which did not exceed 80% of the appraised value of the properties securing the loans.

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

The Bank's commercial real estate, construction and other residential loan portfolios consist of loans with diverse collateral types. The following table sets forth loans that were secured by certain types of collateral at December 31, 2007. These collateral types represent the five highest percentage concentrations of commercial real estate, construction and other residential loan types to the total loan portfolio.

Collateral Type	Loan Balance	Non-Performing	
		Percentage of Total Loan Portfolio	Loans at December 31, 2007
(Dollars in thousands)			
Health Care Facilities	\$149,618	7.1%	\$ 60
Apartments	\$144,647	6.9%	\$ 561
Motels/Hotels	\$127,368	6.1%	\$ 768
Condominiums	\$125,314	6.0%	\$8,210
Subdivisions	\$123,240	5.9%	\$2,315

The Bank's commercial real estate loans and construction loans generally involve larger principal balances than do its residential loans. In general, state banking laws restrict loans to a single borrower and related entities to no more than 25% of a bank's unimpaired capital and unimpaired surplus, plus an additional 10% if the loan is collateralized by certain readily marketable collateral. (Real estate is not included in the definition of "readily marketable collateral.") As computed on the basis of the Bank's unimpaired capital and surplus at December 31, 2007, this limit was approximately \$59.9 million. See "Government Supervision and Regulation." At December 31, 2007, the Bank was in compliance with the loans-to-one borrower limit. At December 31, 2007, the Bank's largest relationship for purposes of this limit totaled \$40.2 million. All loans included in this relationship were current at December 31, 2007.

Commercial real estate lending and construction lending generally affords the Bank an opportunity to receive interest at rates higher than those obtainable from residential mortgage lending and to receive higher origination and other loan fees. In addition, commercial real estate loans and construction loans are generally made with adjustable rates of

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

Construction loans also involve additional risks attributable to the fact that loan funds are advanced upon the security of the project under construction, which is of uncertain value prior to the completion of construction. Moreover, because of the uncertainties inherent in estimating construction costs, delays arising from labor problems,

material shortages, and other unpredictable contingencies, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, and the related loan-to-value ratios. See also the discussion under the headings "- Classified Assets" and "- Loan Delinquencies and Defaults" below.

Other Commercial Lending

At December 31, 2007 and 2006, respectively, Great Southern had \$207 million and \$150 million in other commercial loans outstanding, or 9.9% and 7.7%, 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 stock investments, 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.

At December 31, 2007, the Bank's largest other commercial loan relationship was with an Arkansas-based bank holding company, and totaled \$30.0 million. In addition, the Bank had other loans to stockholders of that bank holding company, at least partially secured by the individuals' stock in the holding company. Subsequent to December 31, 2007, a significant portion of these loans have been classified. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Non-performing Assets -- Subsequent Event Regarding Potential problem Loans."

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, 2007, Great Southern had 120 letters of credit outstanding in the aggregate amount of \$20.4 million. Approximately 79% of the aggregate amount of these letters of credit were secured, including one \$5.0 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 \$165 million and \$145 million at December 31, 2007 and 2006, respectively, or 7.9% and 7.5%, 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, 2007 and 2006, the Bank had \$104.5 million and \$87.0 million, respectively, of indirect auto, boat, modular home and recreational vehicle loans in its portfolio. While the Bank's initial concentrated effort was on automobiles, the program has evolved for use with other tangible products where financing of the product is provided through the seller, including boats and manufactured homes.

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

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

Originations, Purchases, Sales and Servicing of Loans

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

Great Southern may also purchase whole loans and participation interests in loans (generally without recourse, except in cases of breach of representation, warranty or covenant) from other banks, thrift institutions and life insurance companies (originators). The purchase transaction is governed by a participation agreement entered into by the originator and participant (Great Southern) containing guidelines as to ownership, control and servicing rights, among others. The originator may retain all rights with respect to enforcement, collection and administration of the loan. This may limit Great Southern's ability to control its credit risk when it purchases participations in these loans. For instance, the terms of participation agreements vary; however, generally Great Southern may not have direct access to the borrower, and the institution administering the loan may have some discretion in the administration of performing loans and the collection of non-performing loans.

A number of banks, both locally and regionally, 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 construction loans. Great Southern subjects these loans to its normal underwriting standards used for originated loans and rejects any credits that do not meet those guidelines. The originating bank retains the servicing of these loans. The Bank purchased \$1.6 million of these loans in the fiscal year ended December 31, 2007 and \$44.2 million in the fiscal

year ended December 31, 2006. Of the total \$49.5 million of purchased participation loans outstanding at December 31, 2007, \$10.0 million was purchased from one institution, secured by properties located in Arkansas. None of these loans were non-performing at December 31, 2007.

There have been no whole loan purchases by the Bank in the last five years. At December 31, 2007 and 2006, approximately \$193,000, or 0.01%, and \$223,000, or 0.01%, respectively, of the Bank's total loan portfolio consisted of purchased whole loans.

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

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

The Bank sold one- to four-family whole real estate loans and loan participations in aggregate amounts of \$76.2 million, \$71.1 million and \$49.2 million during fiscal 2007, 2006 and 2005, 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 \$3.0 million, \$2.3 million and \$3.9 million during fiscal 2007, 2006 and 2005, 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 2007, 2006 and 2005 were \$1,037,000, \$944,000 and \$983,000, respectively. Of these amounts, \$53,000, \$40,000 and \$72,000, respectively, were gains from the sale of guaranteed student loans and \$984,000, \$904,000 and \$911,000, respectively, were gains from the sale of fixed-rate residential loans.

Although most loans currently sold by the Bank are sold with servicing released, the Bank had the servicing rights for approximately \$66.0 million and \$70.7 million at December 31, 2007 and 2006, respectively, of loans owned by others. The servicing of these loans generated net servicing fees to the Bank for the years ended December 31, 2007 and 2006, of \$50,000 and \$44,000, respectively.

In addition to interest earned on loans and loan origination fees, the Bank receives fees for loan commitments, letters of credit, prepayments, modifications, late payments, transfers of loans due to changes of property ownership and other miscellaneous services. The fees vary from time to time, generally depending on the supply of funds and other competitive conditions in the market. Fees from prepayments, commitments, letters of credit and late payments totaled \$1.2 million, \$1.8 million and \$1.7 million for the years ended December 31, 2007, 2006 and 2005, 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.

Loan Delinquencies and Defaults

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

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

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

The following table sets forth our loans delinquent 30 - 89 days by type, number, amount and percentage of type at December 31, 2007.

	Loans Delinquent for 30-89 Days		
	Number	Amount (Dollars in thousands)	Percent of Total Delinquent Loans
Real Estate:			
One- to four-family	90	\$ 5,578	27%
Other residential	2	224	1
Commercial	12	2,401	12
Construction or development	16	2,403	12
Consumer and overdrafts	943	2,580	13
Other commercial	17	7,209	35
Total	1,080	\$ 20,395	100%

Classified Assets

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered to be of lesser quality as "substandard," "doubtful" or "loss" assets. The regulations require insured institutions to classify their own assets and to establish prudent specific allocations for losses from assets classified "substandard" or "doubtful." For the portion of assets classified as "loss," an institution is required to either establish specific allowances of 100% of the amount classified or charge such amount off its books. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess a potential weakness, are required to be listed on the Bank's watch list and monitored for further deterioration. In addition, a bank's regulators may require the establishment of a general allowance for losses based on the general quality of the asset portfolio of the bank. Following are the total classified assets at December 31, 2007, per the Bank's

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internal asset classification list. There were no significant off- balance sheet items classified at December 31, 2007.

Asset Category	Substandard	Doubtful	Loss	Total Allowance	
				Classified for	Losses
(Dollars in thousands)					
Investment securities	\$ ---	\$---	\$ ---	\$ ---	\$ ---
Loans	64,433	---	---	64,433	25,459
Foreclosed assets	20,399	---	---	20,399	---
Total	\$84,832	\$---	\$ ---	\$84,832	\$25,459

Non-Performing Assets

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

	2007	2006	December 31, 2005	2004	2003
	(Dollars in thousands)				
Non-accruing loans:					
One- to four-family residential	\$ 4,836	\$ 1,627	\$ 1,500	\$ 1,382	\$ 1,935
One- to four-family construction	1,767	3,931	2,103	---	---
Other residential	561	---	---	---	---
Commercial real estate	9,145	6,247	8,368	2,016	2,658
Other commercial	5,923	4,843	2,123	302	1,949
Commercial construction	12,935(1)	2,968	1,049	388	289
Consumer	112	186	237	271	213
Total gross non-accruing loans	35,279	19,802	15,380	4,359	7,044
Loans over 90 days delinquent still accruing interest:					
One- to four-family residential	38	---	640	---	10
Commercial real estate	---	59	---	---	---
Other commercial	34	---	---	---	---
Commercial construction	---	121	---	---	---
Consumer	124	261	190	120	337
Total loans over 90 days delinquent still accruing interest	196	441	830	120	347
Other impaired loans	---	---	---	---	---
Total gross non-performing loans	35,475	20,243	16,210	4,479	7,391
Foreclosed assets:					
One- to four-family residential	742	80	---	195	608
One- to four-family construction	7,701	400	2	431	543
Other residential	---	3,190	---	---	---
Commercial real estate	5,130	825	76	564	939
Commercial construction	6,416	2	---	242	6,277
Total foreclosed assets	19,989	4,497	78	1,432	8,367

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Repossessions	410	271	517	603	667
Total gross non-performing assets	\$ 55,874	\$ 25,011	\$ 16,805	\$ 6,514	\$ 16,425
Total gross non-performing assets as a percentage of average total assets	2.39%	1.15%	0.85%	0.38%	1.14%

(1) One relationship is \$10.3 million of this total. The project has been completed in the first quarter of 2008 and the company expects to resolve this non-performing asset shortly. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Non-performing Assets.

Gross impaired loans totaled \$35.5 million at December 31, 2007 and \$20.2 million at December 31, 2006. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

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

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

Allowances for Losses on Loans and Foreclosed Assets

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

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

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

Senior management reviews these conditions 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 portfolios of mortgage, consumer, commercial and construction loans. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem loans or portfolio segments.

The amounts actually observed in respect to these losses can vary significantly from the estimated amounts. Our methodology permits adjustments to any loss factor used in the computation of the formula allowances in the event that, in management's judgment, significant factors which affect the collectibility of the portfolio, as of the evaluation date, are not reflected in the current loss factors. By assessing the estimated losses inherent in our loan portfolio on a monthly basis, we can adjust specific and inherent loss estimates based upon more current information.

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

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

At December 31, 2007 and 2006, Great Southern had an allowance for losses on loans of \$25.5 million and \$26.3 million, respectively, of which \$9.6 million and \$6.4 million, respectively, had been allocated as an allowance for specific loans, including \$6.0 million and \$3.3 million, respectively, allocated for impaired loans. The allowance is discussed further in Note 4 of the Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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.

	2007		2006		December 31, 2005		2004		2003
	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
(Dollars in thousands)									
One- to four-family residential and construction	\$ 6,042	26.2%	\$ 2,029	27.1%	\$ 1,679	23.7%	\$ 2,019	23.1%	\$ 1,485
Other residential and construction	1,929	8.1	1,436	7.4	2,084	10.0	1,030	11.0	2,092
Commercial real estate	2,257	22.4	9,363	27.4	9,331	31.2	8,984	33.5	8,986
Commercial construction	10,266	22.7	9,189	22.9	7,563	21.6	8,843	16.1	4,875
Other commercial	2,736	12.8	2,150	7.7	2,081	5.7	894	7.2	1,625
Consumer and overdrafts	2,229	7.8	2,091	7.5	1,811	7.8	1,719	9.1	1,781
Total	\$ 25,459	100.0%	\$ 26,258	100.0%	\$ 24,549	100.0%	\$ 23,489	100.0%	\$ 20,844

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

	2007	2006	December 31, 2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	\$ 26,258	\$ 24,549	\$ 23,489	\$ 20,844	\$ 21,288
Charge-offs:					
One- to four-family residential	549	189	215	241	369
Other residential	---	96	---	---	---
Commercial real estate	1,122	310	163	70	1,016
Construction	3,428	1,618	570	36	1,016
Consumer, overdrafts and other loans	3,568	3,704	3,345	3,510	3,646
Other commercial	202	324	963	1,123	1,497
Total charge-offs	8,869	6,241	5,256	4,980	7,544
Recoveries:					
One- to four-family residential	24	59	16	265	22
Other residential	16	1	---	3	---
Commercial real estate	40	27	48	92	50
Construction	183	41	7	6	20
Consumer, overdrafts and other loans	2,132	2,290	2,109	2,138	2,089
Other commercial	200	82	111	321	119
Total recoveries	2,595	2,500	2,291	2,825	2,300
Net charge-offs	6,274	3,741	2,965	2,155	5,244
Provision for losses on loans	5,475	5,450	4,025	4,800	4,800