

OFFICE OF THRIFT SUPERVISION
DEPARTMENT OF THE TREASURY
1700 G STREET, N.W.
WASHINGTON, D. C. 20552

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

OTS Docket No. 5964

LIBERTY SAVINGS BANK, F.S.B.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

43-1652156
(I.R.S. Employer Identification No.)

16 West Franklin Street, Liberty, Missouri
(Address of principal executive office)

64068
(Zip Code)

Registrant's telephone number, including area code (816) 781-4822

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 the number of shares outstanding of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, par value \$1.00 per share

Outstanding Aug. 3, 2004
1,351,076

LIBERTY SAVINGS BANK, F.S.B.

FORM 10-QSB

FOR THE QUARTER ENDED JUNE 30, 2004

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LIBERTY SAVINGS BANK, F.S.B.

Balance Sheets

(Unaudited)

Assets	June 30, 2004	September 30, 2003
Cash and due from banks	\$ 11,639,838	5,249,087
Federal funds sold	2,329,975	3,510,000
Total cash and cash equivalents	13,969,813	8,759,087
Securities available for sale, at market value (amortized cost of \$11,778,852 and \$5,427,035, respectively)	11,651,984	5,414,604
Securities held to maturity, at amortized cost (market value of \$766,714 and \$1,116,381, respectively)	755,802	1,082,264
Stock in Federal Home Loan Bank of Des Moines	1,842,900	1,620,600
Mortgage-backed securities:		
Available for sale, at market value (amortized cost of \$25,953,125 and \$22,934,868, respectively)	25,597,009	22,805,061
Held to maturity, at amortized cost (market value of \$832,088 and \$1,190,131, respectively)	812,042	1,155,997
Loans receivable, net of allowance for loan losses of \$1,432,512 and \$1,296,701, respectively	153,045,992	141,993,325
Loans held for sale	1,353,261	218,100
Premises and equipment, net	4,113,454	4,118,999
Accrued interest receivable	785,055	752,500
Other assets	1,245,281	1,343,297
Total assets	\$ 215,172,593	189,263,834
Liabilities and Stockholders' Equity		
Deposits	\$ 158,653,065	136,338,697
Accrued interest on deposits	79,050	38,066
Advances from Federal Home Loan Bank	33,413,762	30,313,770
Securities sold under agreement to repurchase	695,023	464,003
ESOP note payable	472,895	470,098
Advances from borrowers for taxes and insurance	706,948	1,206,730
Other liabilities	1,109,791	967,526
Total liabilities	195,130,534	169,798,890
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000,000 shares authorized; shares issued and outstanding - none	-	-
Common stock, \$1 par value; 5,000,000 shares authorized; 1,351,076 shares issued and outstanding	1,351,076	1,351,076
Additional paid-in capital	3,899,423	3,867,613
Common stock acquired by ESOP	(417,470)	(470,031)
Accumulated other comprehensive earnings, net	(304,280)	(89,611)
Retained earnings - substantially restricted	15,513,310	14,805,897
Total stockholders' equity	20,042,059	19,464,944
Total liabilities and stockholders' equity	\$ 215,172,593	189,263,834

See accompanying notes to financial statements.

LIBERTY SAVINGS BANK, F.S.B.

Statements of Earnings

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Interest income:				
Loans receivable	\$ 2,352,751	2,279,279	7,035,891	6,757,367
Mortgage-backed securities	177,577	252,965	538,309	985,282
Securities	86,848	66,508	237,430	328,251
Other interest-earning assets	15,809	10,216	35,768	19,869
Total interest income	<u>2,632,985</u>	<u>2,608,968</u>	<u>7,847,398</u>	<u>8,090,769</u>
Interest expense:				
Deposits	732,238	792,515	2,153,566	2,525,756
Securities sold under agreement to repurchase	5,225	4,051	16,576	5,555
ESOP note payable	4,716	3,749	14,152	11,417
Advances from FHLB	262,925	469,590	792,470	1,465,393
Total interest expense	<u>1,005,104</u>	<u>1,269,905</u>	<u>2,976,764</u>	<u>4,008,121</u>
Net interest income	<u>1,627,881</u>	<u>1,339,063</u>	<u>4,870,634</u>	<u>4,082,648</u>
Provision for loan losses	53,950	63,247	148,950	145,072
Net interest income after provision for loan losses	<u>1,573,931</u>	<u>1,275,816</u>	<u>4,721,684</u>	<u>3,937,576</u>
Noninterest income:				
Deposit account and other service charges	231,408	179,879	573,163	479,345
Gain on sale of securities available for sale	-	-	-	214,938
Gain on sale of MBSs available for sale	-	151,054	32,660	279,832
Gain on sale of loans	73,867	147,154	140,918	401,434
Loan service charges	7,658	12,415	26,658	36,800
Total noninterest income	<u>312,933</u>	<u>490,502</u>	<u>773,399</u>	<u>1,412,349</u>
Noninterest expense:				
Compensation and benefits	714,980	688,486	2,178,839	2,043,261
Occupancy expense	57,075	63,394	180,801	181,217
Equipment and data processing expense	202,570	195,717	593,183	571,667
Loss (gain) on foreclosed real estate, net	(27,950)	(16,747)	(27,950)	(72,526)
Federal deposit insurance premiums	5,380	5,348	15,871	15,996
Professional and regulatory services	84,814	69,752	235,011	242,782
Advertising	48,542	44,539	152,496	158,376
Correspondent banking charges	51,760	46,540	147,514	157,179
Other	133,487	136,427	405,352	507,504
Total noninterest expense	<u>1,270,658</u>	<u>1,233,456</u>	<u>3,881,117</u>	<u>3,805,456</u>
Earnings before income taxes	<u>616,206</u>	<u>532,862</u>	<u>1,613,966</u>	<u>1,544,469</u>
Income taxes	229,000	187,000	594,000	561,000
Net earnings	<u>\$ 387,206</u>	<u>345,862</u>	<u>1,019,966</u>	<u>983,469</u>
Basic and diluted earnings per share	<u>\$ 0.29</u>	<u>0.26</u>	<u>0.77</u>	<u>0.74</u>
Dividends per share	<u>\$ 0.20</u>	<u>0.20</u>	<u>0.60</u>	<u>0.60</u>

See accompanying notes to financial statements.

LIBERTY SAVINGS BANK, F.S.B.

Statements of Comprehensive Earnings

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net earnings	\$ 387,206	345,862	1,019,966	983,469
Other comprehensive earnings:				
Reclassification adjustment for gain included in earnings, net of tax	-	(95,164)	(20,902)	(311,705)
Unrealized gains (losses) on securities and MBS arising during the period	<u>(436,122)</u>	<u>11,268</u>	<u>(193,767)</u>	<u>21,676</u>
Comprehensive earnings	<u>\$ (48,916)</u>	<u>261,966</u>	<u>805,297</u>	<u>693,440</u>

See accompanying notes to financial statements.

LIBERTY SAVINGS BANK, F.S.B.

Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
	June 30,	
	2004	2003
Cash flows from operating activities:		
Net earnings	\$ 1,019,966	983,469
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation expense	277,692	285,793
ESOP expense	87,168	49,617
Amortization of premiums (discounts) and deferred loan fees	(124,223)	(48,739)
Provision for loan losses	148,950	145,072
Gain on foreclosed real estate, net	(27,950)	(72,526)
Loans held for sale - originated	(10,404,071)	(31,040,663)
Loans held for sale - proceeds from sale	9,409,828	30,757,141
Gain on sale of loans	(140,918)	(401,434)
Gain on sale of securities available for sale	-	(214,938)
Gain on sale of mortgage-backed securities available for sale	(32,660)	(279,832)
Decrease (increase) in:		
Accrued interest receivable	(32,555)	67,584
Other assets	226,042	15,414
Increase (decrease) in:		
Accrued interest on deposits and other liabilities	183,249	117,999
Net cash provided by operating activities	590,518	363,957
Cash flows from investing activities:		
Net change in loans receivable	(10,843,039)	(26,875,518)
Mortgage-backed securities:		
Available for sale - purchased	(12,154,290)	(21,083,735)
Available for sale - principal collections	5,003,330	9,708,474
Available for sale - proceeds from sale	4,019,776	14,028,473
Held to maturity - principal collections	344,687	862,178
Securities available for sale:		
Purchased	(8,454,279)	(11,680,183)
Proceeds from maturity or call	2,000,000	2,860,000
Proceeds from sale	-	18,295,519
Securities held to maturity:		
Purchased	-	(4,793,212)
Proceeds from maturity or call	325,000	6,575,000
Proceeds from the sale of (cash additions to) foreclosed real estate	40,425	1,043,809
Purchase of stock in FHLB of Des Moines	(222,300)	-
Purchase of premises and equipment	(272,147)	(107,872)
Net cash provided by (used for) investing activities	\$ (20,212,837)	(11,167,067)

LIBERTY SAVINGS BANK, F.S.B.

Statements of Cash Flows

(Unaudited)

(Continued)

	Nine Months Ended June 30,	
	2004	2003
Cash flows from financing activities:		
Net increase (decrease) in deposits	\$ 22,314,368	13,639,298
Increase (decrease) in advances from borrowers for taxes and insurance	(499,782)	(322,452)
Proceeds from advances from the FHLB	44,550,000	21,300,000
Repayment of advances from the FHLB	(41,450,008)	(25,900,008)
Securities sold under agreement to repurchase - proceeds	695,023	459,871
Securities sold under agreement to repurchase - repayment	(464,003)	-
Proceeds from exercise of stock options	-	75,500
Cash dividends	(312,553)	(314,318)
Net cash provided by (used for) financing activities	24,833,045	8,937,891
Net increase (decrease) in cash and cash equivalents	5,210,726	(1,865,219)
Cash and cash equivalents at beginning of period	8,759,087	5,444,462
Cash and cash equivalents at end of period	\$ 13,969,813	3,579,243
 Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest on deposits	\$ 2,112,582	2,578,996
Interest on other borrowings	30,728	16,982
Interest on advances from FHLB of Des Moines	793,802	1,465,383
Income taxes	335,060	525,000
Real estate acquired in settlement of loans	\$ -	180,345

See accompanying notes to financial statements.

LIBERTY SAVINGS BANK, F.S.B.

Notes to Financial Statements

(1) The information contained in the accompanying financial statements is unaudited. In the opinion of management, the financial statements contain all adjustments (none of which were other than normal recurring entries) necessary for a fair statement of the results of operations for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results which may be expected for the entire fiscal year. These financial statements should be read in conjunction with the financial statements of the Bank for the year ended September 30, 2003 contained in the 2003 Annual Report to stockholders which is filed as an exhibit to the Bank's Annual Report on Form 10-KSB.

(2) Liberty Savings Bank F.S.B. (Bank) operates as a federally-chartered stock savings bank, originally chartered by the State of Missouri in 1955. The Bank became a federally-chartered stock savings bank on February 8, 1995. The Bank's deposit accounts are insured up to a maximum of \$100,000 by the Savings Association Insurance Fund (SAIF), which is administered by the Federal Deposit Insurance Corporation (FDIC).

On August 23, 1993, the Bank completed reorganization from a state-chartered thrift institution into a Federal mutual holding company. The reorganization was accomplished through a purchase and assumption of assets and liabilities whereby the Bank (i) incorporated a Missouri-chartered thrift institution; (ii) converted the Bank's charter to a Federally-chartered mutual holding company; (iii) transferred substantially all of the Bank's assets and liabilities to a newly formed stock savings bank in exchange for 800,000 shares of common stock; and (iv) adopted a new charter issued by the Office of Thrift Supervision (OTS) changing its form to that of a Federally-chartered mutual holding company known as Liberty Savings Mutual Holding Company (Company).

(3) Following is a summary of basic and diluted earnings per common share for the three and nine months ended June 30, 2004 and 2003:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net earnings	\$ <u>387,206</u>	<u>345,862</u>	<u>1,019,966</u>	<u>983,469</u>
Weighted-average shares - Basic EPS	1,326,380	1,325,269	1,325,298	1,322,913
Stock options - treasury stock method	<u>4,736</u>	<u>8,309</u>	<u>4,736</u>	<u>8,309</u>
Weighted-average shares - Diluted EPS	<u>1,331,116</u>	<u>1,333,578</u>	<u>1,330,034</u>	<u>1,331,222</u>
Basic and diluted earnings per common share	\$ <u>0.29</u>	<u>0.26</u>	<u>0.77</u>	<u>0.74</u>

LIBERTY SAVINGS BANK, F.S.B.

The following table illustrates the effect on net earnings and earnings per share as if the fair value based method had been applied in each period.

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net earnings	\$ 387,206	345,852	1,019,966	983,469
Total stock-based employee compensation expense determined under fair value based method for stock options, net of related tax effects	(76,979)	-	(76,979)	-
Pro-forma net earnings	<u>\$ 310,227</u>	<u>345,852</u>	<u>942,987</u>	<u>983,469</u>
Earnings per share:				
Basis and diluted - as reported	<u>\$ 0.29</u>	<u>0.26</u>	<u>0.77</u>	<u>0.74</u>
Basic - pro forma	<u>\$ 0.23</u>	<u>0.26</u>	<u>0.71</u>	<u>0.74</u>
Diluted - pro forma	<u>\$ 0.23</u>	<u>0.26</u>	<u>0.71</u>	<u>0.74</u>

- (4) In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003". FSP No. 106-1 permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) until specific accounting guidance was issued. Subsequently, FSP No. 106-1 was amended by FSP No. 106-2. FSP No. 106-2 provides guidance on the accounting for the effects of the Act. FSP No. 106-2 is effective for the first interim or annual period beginning after June 15, 2004. The Bank does not expect the adoption of the provisions of this FSP to have a material impact on the results of operations. The effects of the Act will be considered in the post-retirement benefit plan's next measurement date following the effective date of this FSP.
- (5) The components of the net periodic cost for post-retirement medical benefits are summarized as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Service cost	\$ 1,671	-	5,014	-
Interest cost	8,137	8,778	24,410	26,333
Amortization of transition obligation	3,135	3,135	9,403	9,403
Over (under) accrual	(4,747)	380	(6,045)	1,143
Net periodic cost	<u>\$ 8,196</u>	<u>12,293</u>	<u>32,782</u>	<u>36,879</u>

LIBERTY SAVINGS BANK, F.S.B.

Directors' retirement plan expense was \$8,000 and \$16,222 for the nine months ended June 30, 2004 and 2003, respectively. The expense consists of primarily interest cost.

As authorized by the 2003 Incentive Equity and Deferred Compensation Plan (Plan), the Board of Directors granted 22,500 options to non-employee directors and 27,500 to certain officers and employees. The Plan authorizes the award of up to 73,724 shares of common stock, subject to restrictions, to be issued to directors, officers and employees of the Bank. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Stock options to directors are fully vested on the grant date of June 16, 2004. Options granted to the Bank's CEO are vested over a period of three years and three months and options granted to certain other officers and employees are vested over a five-year period. The Board believes these options will promote the success and enhance the value of Liberty Savings Bank by linking the personal interests of the members of the Board and the Bank's officers to those of Bank shareholders. The Bank believes this plan will be beneficial in its ability to motivate, attract, and retain the services of the members of the Board, officers and employees of the Bank.

The 2003 Incentive Equity and Deferred Compensation Plan was approved by shareholders on January 21, 2004 and approved by the Office of Thrift Supervision on May 21, 2004.

Post-retirement medical benefits and pension benefits for three directors have been amended to control future costs. The post-retirement medical benefit has been amended from the current plan of lifetime health insurance coverage to health insurance benefits not to exceed twenty years with a monthly liability not to exceed \$500 for each of the retired directors and spouses. The annual retirement benefit was increased to \$15,000 for a period not to exceed ten years. Both plans require twenty-five years of service on the Board to receive these benefits.

In addition, two directors will each receive a restricted stock award of 1,750 shares vested over three years in lieu of post-retirement medical benefits and retirement benefits.

Directors elected to the Board after June 16, 2004 will receive no post-retirement medical benefits and retirement benefits.

The Bank accounts for its restricted stock award and stock options under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees."

LIBERTY SAVINGS BANK, F.S.B.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this Form 10-QSB, 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 changes in economic conditions in our market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in our market area, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Bank wishes to caution you not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Bank wishes to advise you that the factors listed above could affect the Bank's financial performance and could cause the Bank'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 Bank does not undertake, and specifically disclaims 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.

Future Expansion

The Board of Directors has recently adopted a five-year strategic plan to enhance long-term shareholder value through franchise growth. The strategic plan calls for expansion through de novo branching in the Kansas City metropolitan area to enable the Bank to take advantage of the opportunities afforded by recent and forecasted economic growth in that market. Management anticipates that the Bank will open additional branch offices over the next five years based upon local market conditions. The first new branch is planned for northern suburban Kansas City in 2004. The Bank's strategic plan also calls for the Bank to gradually expand its commercial and consumer lines of business, while continuing to pursue its traditional business of residential lending and mortgage banking. The Board and management believe that the increased asset size to be achieved through the planned expansion will enable the Bank to better leverage efficiencies and technology but still win customers based on personal service and relationships. The strategic plan provides for this planned branch expansion to be funded with the Bank's current capital plus future retained earnings and does not call for raising additional capital at this time.

While the Board and management anticipate that this expansion strategy will enhance long-term shareholder value, new branches generally require a significant initial capital investment and take approximately three years to become profitable. Accordingly, management anticipates that, in the short term, net earnings will be negatively affected as the Bank incurs significant capital expenditures and non-interest expenses in opening and operating new branches before the new branches can produce sufficient net interest income to offset the increased expense. In addition, the need to use capital to fund de novo branching over the next five years may limit the Bank's ability to increase the dividend rate on its common stock during that period.

LIBERTY SAVINGS BANK, F.S.B.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Qualitative Disclosures of Market Risk

The Bank's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Bank has an exposure to interest rate risk. The Bank has employed various strategies intended to minimize the adverse effect of interest rate risk on future operations by providing a better match between the interest rate sensitivity of its assets and liabilities. In particular, the Bank's strategies are intended to stabilize net interest income for the long-term by protecting its interest rate spread against increases in interest rates. Such strategies include the origination for portfolio of one-year, adjustable-rate mortgage loans (AMLs) secured by one to four family residential real estate and the origination of other types of adjustable-rate and short-term loans with greater interest rate sensitivities than long-term, fixed-rate residential mortgage loans. The Bank also sells fixed-rate loans in the secondary market.

Quantitative Disclosures of Market Risk

The Bank does not purchase derivative financial instruments or other financial instruments for trading purposes. Further, the Bank is not subject to any foreign currency exchange rate risk, commodity price risk or equity price risk. The Bank is subject to interest rate risk.

The OTS provides a net market value methodology to measure the interest rate risk exposure of thrift institutions. This exposure is a measure of the potential decline in the net portfolio value (NPV) of the institution based upon the effect of an assumed 100, 200, and 300 basis point increase, and a 100 basis point decrease in interest rates. NPV is the present value of the expected net cash flows from the institution's financial instruments (assets, liabilities and off-balance sheet contracts). Loans, deposits, advances and investments are valued taking into consideration similar maturities, related discount rates and applicable prepayment assumptions.

Liquidity and Capital Resources

The Bank's principal sources of funds are cash receipts from deposits, loan repayments by borrowers, proceeds from maturing securities, advances from the Federal Home Loan Bank (FHLB) and net earnings. Liberty Savings has an agreement with the FHLB of Des Moines to provide cash advances, should the Bank need additional funds for loan originations or other purposes.

Commitments to originate mortgage loans are legally binding agreements to lend to the Bank's customers. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of the borrower to a third party. Commitments, which generally expire in 180 days or less, at June 30, 2004 were \$650,000 and \$162,000 in one-to-four family adjustable and fixed-rate mortgage loans, respectively. Commitments to originate adjustable-rate commercial real estate loans totaled \$1,060,000.

Commitments on behalf of borrowers for unused lines of credit on home equity loans and other one-to-four family loans were \$7,803,000. Commitments for unused lines of credit on commercial real estate and non-real estate loans were \$693,000 and \$815,000, respectively. Commitments on behalf of borrowers for unused balances on credit cards were \$466,000. All lines of credit generally expire in seven years or less. Commitments for the undisbursed portion of construction, development, and land loans totaled \$22,994,000 and \$105,000 for adjustable and fixed rate loans, respectively. Commitments on behalf of borrowers for outstanding letters of credit amounted to \$20,000 at June 30, 2004.

Management's Discussion and Analysis of

LIBERTY SAVINGS BANK, F.S.B.

Financial Condition and Results of Operations

Financial Condition

Proceeds from sales and maturity of securities and mortgage-backed securities (MBS), customer deposits, advances from FHLB and loan collections were used to purchase securities and MBS, repay FHLB advances, fund loans and pay real estate taxes on behalf of borrowers. Other assets decreased due to the timing of Federal income tax payments offset by higher deductible temporary differences related to unrealized losses on securities and MBS available for sale. Other liabilities rose due to the timing of payments of certain accrued expenses.

The Bank is required to maintain certain minimum capital requirements under Office of Thrift Supervision (OTS) regulations. Failure by a savings institution to meet minimum capital requirements can result in certain mandatory and possible discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Bank's financial statements. Under the capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to judgments by the regulators about components, risk-weightings and other factors.

During the nine months ended June 30, 2004 and 2003, the Bank paid cash dividends of \$312,553 and \$314,318, respectively to its stockholders. Cash dividends of \$6,540,000 have been waived to the Company through June 30, 2004. The waiver of cash dividends has been approved by the OTS subject to certain provisions. The OTS no longer requires that waived dividends be considered as a restriction on retained earnings.

The Company is in the process of filing with the OTS a notice of intent to waive its right to receive cash dividends declared by the Bank for the quarterly periods through June 30, 2005. OTS approval of the waiver of dividends to the Company may be rescinded prior to the dividend declaration date.

The Bank's actual and required capital amounts and ratios at June 30, 2004 are as follows:

	<u>Actual</u>		<u>Minimum Required</u>			
	<u>Amount</u>	<u>Ratio</u>	<u>for Capital Adequacy</u>		<u>to be "Well Capitalized"</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in Thousands)					
Stockholders' equity	\$ 20,042					
Unrealized loss on securities AFS, net	304					
Tangible capital	\$ 20,346	9.5%	\$ 3,227	1.5%		
General valuation allowance	1,433					
Total capital to risk-weighted assets	<u>\$ 21,779</u>	14.4%	\$ 12,103	8.0%	\$ 15,129	10.0%
Tier 1 capital to risk-weighted assets	\$ 20,346	13.4%	\$ 6,051	4.0%	\$ 9,077	6.0%
Tier 1 capital to total assets	\$ 20,346	9.5%	\$ 8,607	4.0%	\$ 10,758	5.0%

LIBERTY SAVINGS BANK, F.S.B.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Asset Quality

The following table sets forth information with respect to the Bank's nonperforming loans and other problem assets at the dates indicated.

	June 30, 2004	September 30, 2003
Nonaccrual loans	\$ 600,000	-
Accruing loans past due 90 days or more	-	-
Total nonperforming loans	\$ 600,000	-
Allowance for losses on nonperforming loans	\$ 15,000	-
Nonperforming loans with no allowance for loan losses	\$ -	-

At June 30, 2004, the Bank had \$678,000 of loans which were not currently classified as nonaccrual, 90 days past due or restructured but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in disclosure as non-accrual, 90 days past due, restructured, or classified.

Under the Bank's internal review policy, loans classified as substandard increased from \$1.5 million at September 30, 2003 to \$1.7 million at June 30, 2004. Loans identified as special mention at June 30, 2004 and September 30, 2003 amounted to \$2.6 million and \$2.9 million, respectively.

One loan secured by three single-family residences in the amount of \$600,000 is listed as non-accrual. The Bank is in the process of foreclosure on these properties. Two loans to another borrower in the amount of \$678,000 secured by ten single-family residences are more than sixty days delinquent at June 30, 2004. The Bank is in the process of foreclosure on these properties.

Following is a summary of activity in the allowance for loan losses:

Balance at September 30, 2003	\$ 1,296,701
Charge-offs	(20,000)
Recoveries	6,861
Provision charged to expense	148,950
Balance at June 30, 2004	\$ 1,432,512

Results of Operations

Net earnings increased from \$346,000 for the three months ended June 30, 2003 to \$387,000 for the three months ended June 30, 2004. Net earnings increased from \$983,000 for the nine months ended June 30, 2003 to \$1,020,000 for the nine months ended June 30, 2004. Net earnings increased due to higher net interest income and deposit account service charges, partially offset by substantially lower gains on sale of mortgage loans and securities, slightly higher non-interest expense, and an increase in income tax expense.

LIBERTY SAVINGS BANK, F.S.B.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Net interest income increased from \$1.34 million for the three months ended June 30, 2003 to \$1.63 million for the three months ended June 30, 2004. Net interest income increased for the nine month period from \$4.08 million in 2003 to \$4.87 million in 2004. The increase was due to a higher interest rate spread and a higher level of net interest-earning assets. The Bank's interest rate spread was 2.92% for the nine months ended June 30, 2003 and 3.24% for the nine months ended June 30, 2004. The average rate on interest-earning assets decreased by 72 basis points, while the average rate on interest-bearing liabilities decreased by 104 basis points. Due to the rapid and pronounced decline in interest rates during 2003, the Bank has repaid maturing FHLB advances (including prepaying certain high-rate advances in September, 2003) and has aggressively reduced interest rates paid on certificates of deposit. Average net interest-earning assets increased from \$10.2 million for the nine months ended June 30, 2003 to \$11.9 million for the nine months ended June 30, 2004 due primarily to an increase in loans.

Interest income on loans receivable for the nine month period increased as a result of a higher average balance, partially offset by a lower average yield. The average yield on loans decreased from 7.07% for the nine months ended June 30, 2003 to 6.09% for the nine months ended June 30, 2004. The average loan balance increased from \$127.4 million to \$154.1 million for the nine months ended June 30, 2003 and 2004, respectively. Interest income on mortgage-backed securities decreased due to a lower average yield and average balance. The average yield decreased from 4.08% for the nine months ended June 30, 2003 to 3.20% for the nine months ended June 30, 2004. Interest income on securities for the nine month period decreased as a result of a lower average balance and yield. The average balance for the nine months ended June 30, 2003 and 2004 was \$11.9 million and \$11.1 million, respectively. The average yield for the nine months ended June 30, 2003 and 2004 was 3.66% and 2.84%, respectively.

Interest expense on deposits decreased as a result of a lower average rate, partially offset by a higher average balance. The weighted-average rate on deposits decreased from 2.55% for the nine months ended June 30, 2003 to 1.96% for the comparable 2004 period. The average balance increased from \$132.1 million for the nine months ended June 30, 2003 to \$146.4 million for the nine months ended June 30, 2004. Interest expense on advances from the FHLB decreased due to a lower average rate. The average rate on advances from FHLB decreased from 6.09% for the nine months ended June 30, 2003 to 3.18% for the comparable period in 2004.

The provision for loan losses increased slightly from \$145,000 for the nine months ended June 30, 2003 to \$149,000 for the comparable 2004 period. The provision for loan losses is based upon management's consideration of current economic conditions, the Bank's loan portfolio and historical loss experience used to estimate probable losses as well as the level of non-performing assets and classified assets. Management also reviews individual loans for which full collectibility may not be reasonably assured and considers, among other matters, the estimated fair value of the underlying collateral. This evaluation is ongoing and results in variations in the Bank's provision for loan losses.

The Bank is subject to periodic examination by regulatory agencies, which may require the Bank to record increases in the allowances based on their evaluation of available information. There can be no assurance that the Bank's regulators will not require further increases to the allowances.

LIBERTY SAVINGS BANK, F.S.B.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Noninterest income decreased due to lower gains on sales of loans, securities and MBS, slightly offset by higher deposit account and other service charges. Service charges on deposit accounts increased due to the Bank's strategy to increase checking accounts and related fee income generated on checking account overdrafts. Gains on sales of securities and MBS are not stable sources of income and there is no assurance that the Bank will generate such gains in the future. Gain on sale of loans has been adversely affected by a substantial decline in mortgage refinancing activity.

Noninterest expense increased from \$1,233,000 for the three months ended June 30, 2003 to \$1,271,000 for the three months ended June 30, 2004. Noninterest expense increased from \$3,805,000 for the nine months ended June 30, 2003 to \$3,881,000 for the comparable 2004 period. Compensation and benefits increased due to a decline in the deferral of loan origination salary costs and higher ESOP and health benefit expenses. Equipment and data processing expense increased due to higher data processing costs. Other noninterest expense for the nine month period decreased due primarily to lower supplies expense, travel costs and costs incurred in conjunction with foreclosed real estate.

Income taxes increased due to higher pretax earnings.

LIBERTY SAVINGS BANK, F.S.B.

Controls and Procedures

As of the end of the period covered by this report, the Bank carried out an evaluation, under the supervision and with the participation of the Bank's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank's principal executive officer and principal financial officer concluded that the Bank's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Bank in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

In addition, there have been no changes in the Bank's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

LIBERTY SAVINGS BANK, F.S.B.

PART II - Other Information

Item 1 - Legal Proceeding

There are no material legal proceedings to which the Bank is a party or of which any of their property is subject. From time to time, the Bank is a party to various legal proceedings incident to its business.

Item 2 - Changes in Securities

None.

Item 3 - Defaults upon Senior Securities

Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders

None

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K.

- (a) Exhibit 31.1: Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (b) Exhibit 31.2: Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (c) Exhibit 32: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (d) Reports on Form 8-K: No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIBERTY SAVINGS BANK, F.S.B.
(Registrant)

DATE: August 3, 2004

BY: Brent M. Giles
Brent M. Giles, President and Chief Executive Officer
and Duly Authorized Officer

BY: Marc J. Weishaar
Marc J. Weishaar, Senior Vice President, Chief Financial Officer
and Principal Accounting Officer

LIBERTY SAVINGS BANK, F.S.B.

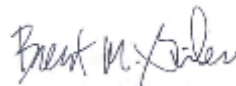
Exhibit 31.1

Certification

I, Brent M. Giles, Chief Executive Officer of Liberty Savings Bank, F.S.B., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Liberty Savings Bank, F.S.B.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 3, 2004



Brent M. Giles
President & Chief Executive Officer

LIBERTY SAVINGS BANK, F.S.B.

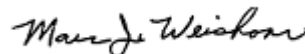
Exhibit 31.2

Certification

I, Marc J. Weishaar, Chief Financial Officer of Liberty Savings Bank, F.S.B., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Liberty Savings Bank, F.S.B.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 3, 2004



Marc J. Weishaar
Senior Vice President & Chief Financial Officer

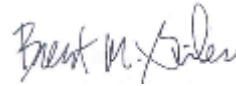
LIBERTY SAVINGS BANK, F.S.B.

Exhibit 32

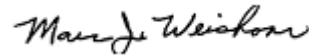
**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Brent M. Giles, President & Chief Executive Officer, and Marc J. Weishaar, Senior Vice President & Chief Financial Officer, of Liberty Savings Bank, F.S.B. (Bank) each certify in his capacity as an officer of the Bank that he has reviewed the Quarterly Report of the Bank on Form 10-QSB for the quarter ended June 30, 2004 (Report) and that to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. the information contained in this Report fairly represents, in all material respects, the financial condition and results of operations of the Bank.



By: _____
Brent M. Giles
President & Chief Executive Officer



By: _____
Marc J. Weishaar
Senior Vice President & Chief Financial Officer

Date: August 3, 2004