

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, 2005

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

43-1652156

(State or other jurisdiction of  
incorporation or organization)

(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 August 4, 2005  
1,357,776

LIBERTY SAVINGS BANK, F.S.B.

FORM 10-QSB

FOR THE QUARTER ENDED JUNE 30, 2005

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LIBERTY SAVINGS BANK, F.S.B.

**Balance Sheets**

(Unaudited)

<b>Assets</b>	<b>June 30, 2005</b>	<b>September 30, 2004</b>
Cash and due from banks	\$ 6,716,096	4,371,384
Federal funds sold	10,070,000	2,940,000
Total cash and cash equivalents	16,786,096	7,311,384
Securities available for sale, at market value (amortized cost of \$12,130,554 and \$12,505,286, respectively)	12,052,088	12,518,014
Securities held to maturity, at amortized cost (market value of \$0 and \$779,288, respectively)	-	755,281
Stock in Federal Home Loan Bank of Des Moines	1,680,700	1,892,500
Mortgage-backed securities:		
Available for sale, at market value (amortized cost of \$23,163,717 and \$22,532,852, respectively)	22,887,198	22,472,674
Held to maturity, at amortized cost (market value of \$0 and \$651,298, respectively)	-	634,518
Loans receivable, net of allowance for loan losses of \$2,042,015 and \$2,024,298, respectively	169,586,217	159,839,649
Loans held for sale	1,584,407	1,076,887
Premises and equipment, net	5,736,876	4,243,323
Foreclosed real estate, net	969,854	547,453
Accrued interest receivable	1,040,726	844,962
Other assets	1,524,517	1,345,222
Total assets	<u>\$ 233,848,679</u>	<u>213,481,867</u>
 <b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 177,834,754	152,928,861
Accrued interest on deposits	209,775	108,293
Advances from FHLB	30,530,418	37,130,426
Securities sold under agreement to repurchase	1,898,425	693,954
ESOP note payable	427,237	405,194
Advances from borrowers for taxes and insurance	674,965	971,911
Other liabilities	1,230,370	1,039,600
Accrued income taxes	43,359	19,869
Total liabilities	<u>212,849,303</u>	<u>193,298,108</u>
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; 1,357,776 and 1,354,576 shares issued and outstanding	-	-
Additional paid-in capital	4,095,224	3,987,154
Common stock acquired by ESOP	(369,606)	(404,878)
Common stock acquired by Incentive Plan	(53,671)	(74,668)
Accumulated other comprehensive earnings, net	(223,640)	(29,893)
Retained earnings - substantially restricted	16,193,293	15,351,468
Total stockholders' equity	<u>20,999,376</u>	<u>20,183,759</u>
Total liabilities and stockholders' equity	<u>\$ 233,848,679</u>	<u>213,481,867</u>

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,	
	2005	2004	2005	2004
Interest income:				
Loans receivable	\$ 2,959,150	2,352,751	8,485,418	7,035,891
Mortgage-backed securities	193,956	177,577	567,132	538,309
Securities	108,986	86,848	317,358	237,430
Other interest-earning assets	52,076	15,809	102,521	35,768
Total interest income	<u>3,314,168</u>	<u>2,632,985</u>	<u>9,472,429</u>	<u>7,847,398</u>
Interest expense:				
Deposits	1,035,184	732,238	2,824,691	2,153,566
Securities sold under agreement to repurchase	7,142	5,225	19,619	16,576
ESOP note payable	6,365	4,716	16,831	14,152
Advances from FHLB	276,095	262,925	873,194	792,470
Total interest expense	<u>1,324,786</u>	<u>1,005,104</u>	<u>3,734,335</u>	<u>2,976,764</u>
Net interest income	<u>1,989,382</u>	<u>1,627,881</u>	<u>5,738,094</u>	<u>4,870,634</u>
Provision for loan losses	-	53,950	285,000	148,950
Net interest income after provision for loan losses	<u>1,989,382</u>	<u>1,573,931</u>	<u>5,453,094</u>	<u>4,721,684</u>
Noninterest income:				
Loan service charges	17,939	7,658	37,273	26,658
Gain on sale of MBSs available for sale	-	-	9,711	32,660
Gain on sale of loans	55,525	73,867	118,026	140,918
Deposit account and other service charges	265,749	231,408	697,256	573,163
Total noninterest income	<u>339,213</u>	<u>312,933</u>	<u>862,266</u>	<u>773,399</u>
Noninterest expense:				
Compensation and benefits	872,905	714,980	2,434,021	2,178,839
Occupancy expense	97,075	57,075	272,421	180,801
Equipment and data processing expense	206,873	202,570	609,985	593,183
Operations from foreclosed real estate, net	69,699	(27,950)	(44,617)	(26,819)
Federal deposit insurance premiums	5,850	5,380	16,967	15,871
Professional and regulatory services	67,959	84,814	266,808	235,011
Advertising	88,239	48,542	234,439	152,496
Correspondent banking charges	52,408	51,760	161,301	147,514
Supplies	47,089	32,652	109,579	76,347
Other	134,085	100,835	439,875	327,874
Total noninterest expense	<u>1,642,182</u>	<u>1,270,658</u>	<u>4,500,779</u>	<u>3,881,117</u>
Earnings before income taxes	<u>686,413</u>	<u>616,206</u>	<u>1,814,581</u>	<u>1,613,966</u>
Income taxes	<u>254,000</u>	<u>229,000</u>	<u>654,000</u>	<u>594,000</u>
Net earnings	<u>\$ 432,413</u>	<u>387,206</u>	<u>1,160,581</u>	<u>1,019,966</u>
Basic and diluted earnings per share	<u>\$ 0.32</u>	<u>0.29</u>	<u>0.87</u>	<u>0.77</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)

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net earnings	\$ 432,413	387,206	1,160,581	1,019,966
Other comprehensive earnings:				
Unrealized gain (loss) on securities and MBSs available for sale, net:				
Reclassification adjustment for gain included in earnings, net of tax	-	-	(6,312)	(20,902)
Unrealized gains (losses) arising during the period, net of tax	84,124	(436,122)	(187,435)	(193,767)
Comprehensive earnings	<u>\$ 516,537</u>	<u>(48,916)</u>	<u>966,834</u>	<u>805,297</u>

See accompanying notes to financial statements.

## LIBERTY SAVINGS BANK, F.S.B.

**Statements of Cash Flows**  
(Unaudited)

**Nine Months Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net earnings	\$ 1,160,581	1,019,966
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation expense	302,061	277,692
ESOP expense	94,717	87,168
Incentive Plan expense	20,997	-
Amortization of premiums and deferred loan fees, net	(202,558)	(124,223)
Provision for loan losses	285,000	148,950
Loans held for sale - originated	(13,169,551)	(10,404,071)
Loans held for sale - proceeds from sale	12,780,057	9,409,828
Gain on foreclosed real estate, net	(88,961)	(27,950)
Gain on sale of loans	(118,026)	(140,918)
Gain on sale of MBSs available for sale	(9,711)	(32,660)
Decrease (increase) in:		
Accrued interest receivable	(195,764)	(32,555)
Other assets	(65,507)	226,042
Increase (decrease) in:		
Accrued interest on deposits and other liabilities	292,252	183,249
Accrued income taxes	23,490	-
Net cash provided by operating activities	<u>1,109,077</u>	<u>590,518</u>
Cash flows from investing activities:		
Net change in loans receivable	(10,439,447)	(10,843,039)
Mortgage-backed securities:		
Available for sale - purchased	(7,254,653)	(12,154,290)
Available for sale - principal collections	5,247,351	5,003,330
Available for sale - proceeds from sale	1,883,700	4,019,776
Held to maturity - principal collections	68,785	344,687
Securities available for sale:		
Purchase	(3,518,323)	(8,454,279)
Proceeds from maturity or call	4,575,000	2,000,000
Securities held to maturity:		
Proceeds from maturity or call	-	325,000
Proceeds from foreclosed real estate, net	418,514	40,425
Purchase of stock in FHLB of Des Moines	(642,000)	(508,900)
Redemption of stock in FHLB of Des Moines	853,800	286,600
Purchase of premises and equipment	(1,795,614)	(272,147)
Net cash provided by (used for) investing activities	<u>\$ (10,602,887)</u>	<u>(20,212,837)</u>

(Continued)

## LIBERTY SAVINGS BANK, F.S.B.

**Statements of Cash Flows  
(Unaudited)**

**Nine Months Ended June 30, 2005 and 2004**

(Continued)

	<u>2005</u>	<u>2004</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	\$ 24,905,893	22,314,368
Increase (decrease) in advances from borrowers for taxes and insurance	(296,946)	(499,782)
Proceeds from advances from the FHLB	32,750,000	44,550,000
Repayment of advances from the FHLB	(39,350,008)	(41,450,008)
Securities sold under agreement to repurchase:		
Proceeds	21,956,295	695,023
Repayments	(20,751,824)	(464,003)
Repayment of ESOP note payable	(407)	-
Proceeds from exercise of stock options	74,275	-
Cash dividends	(318,756)	(312,553)
Net cash provided by (used for) financing activities	<u>18,968,522</u>	<u>24,833,045</u>
Net increase (decrease) in cash and cash equivalents	9,474,712	5,210,726
Cash and cash equivalents at beginning of period	7,311,384	8,759,087
Cash and cash equivalents at end of period	<u>\$ 16,786,096</u>	<u>13,969,813</u>

## Supplemental disclosures of cash flow information:

## Cash paid (received) during the period for:

Interest on deposits	\$ 2,723,209	2,112,582
Interest on ESOP note payable	16,831	14,152
Interest on securities sold under agreement to repurchase	19,619	16,576
Interest on advances from FHLB of Des Moines	873,194	793,802
Income taxes	630,511	335,060
Transfer of securities and MBS, held to maturity to available for sale	1,308,092	-

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 that 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, 2004 contained in the 2004 Annual Report to stockholders that 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 a 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 months and nine months ended June 30, 2005 and 2004:

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Net earnings	\$ 432,413	387,206
Weighted-average shares - Basic EPS	1,332,564	1,326,380
Stock options - treasury stock method	5,463	4,736
Weighted-average shares - Diluted EPS	1,338,027	1,331,116
Basic and diluted earnings per common share	\$ 0.32	0.29

	<b>Nine Months Ended</b>	
	<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>
Net earnings	\$ 1,160,581	1,019,966
Weighted-average shares - Basic EPS	1,331,050	1,325,298
Stock options - treasury stock method	5,463	4,736
Weighted-average shares - Diluted EPS	1,336,513	1,330,034
Basic and diluted earnings per common share	\$ 0.87	0.77

The option to purchase 11,000 shares granted in January, 2005 were not included in the computation of diluted earnings per share for the three and nine months ended June 30, 2005, since the exercise price was greater than the average market price of the common stock.



## LIBERTY SAVINGS BANK, F.S.B.

**Notes to Financial Statements**

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.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net earnings	\$ 432,413	387,206	1,160,581	1,019,966
Total stock-based employee compensation expense determined under fair value based method for stock options, net of related tax effects	(7,294)	(76,979)	(18,975)	(76,979)
Pro-forma net earnings	\$ 425,119	310,227	1,141,606	942,987
Earnings per share:				
Basis and diluted - as reported	\$ 0.32	0.29	0.87	0.77
Basic - pro forma	\$ 0.32	0.23	0.86	0.71
Diluted - pro forma	\$ 0.32	0.23	0.85	0.71

In January 2005, the Board granted stock options of 11,000 shares to certain officers and employees. Options granted to the CEO are vested over a period of three years and eight months and options granted to certain other officers and employees are vested over a five-year period.

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."

- (4) The components of the net periodic cost for postretirement medical benefits are summarized as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Service cost	\$ 1,671	1,671	\$ 5,013	5,014
Interest cost	5,813	8,137	17,439	24,410
Amortization of transition obligation	719	3,135	2,157	9,403
Amortization of actuarial gain	(1,453)	-	(4,359)	-
Over (under) accrual	-	(4,747)	-	(6,045)
Net periodic cost	\$ 6,750	8,196	\$ 20,250	32,782

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law on December 8, 2003. In accordance with FASB Staff Position 106-2, neither the accumulated postretirement benefit obligation nor the net periodic postretirement benefit cost in the financial statements reflects the effects of the Act. The Bank does not expect the effects of the Act to have a material impact on the financial statements.

## LIBERTY SAVINGS BANK, F.S.B.

## Notes to Financial Statements

- (5) In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS No. 123 (R)), "Share-Based Payment." SFAS No. 123 (R) requires all entities to recognize compensation expense equal to the fair value of share-based payments such as stock options granted to employees. The Bank is required to apply SFAS No. 123 (R) using a modified prospective method. Under this method, the Bank is required to record compensation expense for the unvested portion of previously granted awards that are outstanding as of the required effective date over the requisite service period. In addition, the Bank may elect to adopt SFAS No. 123 (R) by restating prior years on a basis consistent with the pro forma disclosures required for those years by SFAS No. 123. SFAS No. 123 (R) is effective for public entities that file as small business issuers at the beginning of the fiscal year that begins after December 15, 2005. SFAS No. 123 (R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Management of the Bank is currently evaluating the effect of SFAS No. 123 (R) on the Bank's financial statements.
- (6) Securities having a continuous unrealized loss position at June 30, 2005 are summarized as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Available for sale- debt securities:						
Federal agency obligations	\$ 1,489,926	(9,782)	5,750,438	(72,767)	7,240,364	(82,549)
State and municipal obligations	1,250,301	(11,449)	117,062	(162)	1,367,363	(11,611)
	<u>\$ 2,740,227</u>	<u>(21,231)</u>	<u>5,867,500</u>	<u>(72,929)</u>	<u>8,607,727</u>	<u>(94,160)</u>

Mortgage-backed securities having a continuous unrealized loss position at June 30, 2005 are summarized as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Available for sale:						
FHLMC	\$ 6,699,420	(55,926)	7,397,610	(105,027)	14,097,030	(160,953)
FNMA	1,062,848	(7,656)	4,714,539	(89,344)	5,777,387	(97,000)
FHLMC - CMO	448,536	(2,289)	-	-	448,536	(2,289)
FNMA - CMO	-	-	259,150	(4,325)	259,150	(4,325)
GNMA - CMO	-	-	874,752	(20,502)	874,752	(20,502)
	<u>\$ 8,210,804</u>	<u>(65,871)</u>	<u>13,246,051</u>	<u>(219,198)</u>	<u>21,456,855</u>	<u>(285,069)</u>

The Bank believes that the decline in value is related to changes in market interest rates and not the credit quality of the issuers.

During the quarter ended March 31, 2005 the Bank transferred securities of \$754,423 and mortgage-backed securities of \$553,669 from held to maturity to available for sale. The unrealized gain at the transfer date was \$12,014 and \$8,913, respectively. The decision to transfer is consistent with management's current practice of classifying all investments purchased as available for sale. The Bank will be unable to classify investments as held to maturity until a minimum of one year after the transfer.

# 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 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 was opened in Independence, Missouri in May 2005 and the second new branch is planned for Kansas City, Missouri in December 2005. 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 construction 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 attract 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 income 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.

### **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

# LIBERTY SAVINGS BANK, F.S.B.

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

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 assumed incremental 100 basis point increases or decreases 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 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.

The following table sets forth information regarding off-balance sheet financial instruments as of June 30, 2005:

	<u>Fixed-Rate</u>	<u>Adjustable-Rate</u>
Off-balance sheet financial instruments:		
Commitments to originate one-to four family mortgage loans	790,000	645,000
Commitments to originate multi-family real estate loans	1,392,000	-
Commitments to originate non-residential commercial real estate loans	9,791,000	-
Commitments to originate commercial non-real estate loans	77,000	-
Commitments for unused lines of credit on home equity loans	-	8,010,000
Commitments for unused lines of credit on commercial real estate	-	1,276,000
Commitments for unused lines of credit on commercial non-real estate	-	242,000
Commitments for unused balances on credit cards	-	454,000
Commitments for the undisbursed portion of construction and land development loans	923,000	25,612,000
Commitments for the undisbursed portion of multi-family real estate loans	-	604,000
Commitments for unused lines of credit on one-to-four family real estate loans	-	369,000
Letters of Credit:		
Unused Lines of Credit	20,000	

# LIBERTY SAVINGS BANK, F.S.B.

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

### Financial Condition

Total assets increased from \$213.5 million at September 30, 2004 to \$233.8 million at June 30, 2005. Cash and cash equivalents increased \$9.5 million to \$16.8 million at June 30, 2005 due to an increase in deposits and limited reinvestment of cash as a result of the current low yielding short-term interest rate environment. Securities available for sale decreased due to calls of federal agency obligations, partially offset by the reclassification of held to maturity securities and additional purchases. Mortgage-backed securities available for sale increased due to purchases and reclassification of held to maturity securities, partially offset by principal repayments and sales. Loans receivable increased from \$159.8 million at September 30, 2004 to \$169.6 million at June 30, 2005 due to activity in construction, land development and commercial real estate lending. Loans held for sale increased from \$1.1 million at September 30, 2004 to \$1.6 million at June 30, 2005. Foreclosed real estate, net at June 30, 2005 totaled \$970,000, an increase from \$547,000 at September 30, 2004. The foreclosed real estate consists of thirteen single-family investment properties. Two of these properties were sold in July 2005. Premises and equipment increased from \$4.2 million at September 30, 2004 to \$5.7 million at June 30, 2005 due to the purchase of land, an existing building, and furniture and equipment for the recently opened branch in Independence, Missouri and related costs for a future branch site in Kansas City, Missouri. Accrued interest receivable increased due to an increase in loans receivable and higher loan yields. Other assets increased due to higher deferred tax assets attributable to unrealized losses on mortgage-backed securities and securities and a higher level of certain prepaid items.

Total liabilities increased \$19.5 million to \$212.8 million at June 30, 2005 as compared to \$193.3 million at September 30, 2004. Deposits increased from \$152.9 million to \$177.8 million due to certificate promotions, and to a lesser extent, greater demand deposit accounts. Accrued interest on deposits increased due to greater deposit balances and higher rates. Securities sold under agreements to repurchase increased by \$1.2 million. Advances from borrowers for taxes and insurance decreased by \$297,000 due to payment of real estate taxes on behalf of borrowers. Other liabilities increased primarily due to a higher level of accrued payroll expense. Accrued payroll expense was higher due to the timing of payment of payroll, increase in number of personnel and accrual of bonuses.

Stockholders' equity increased by \$816,000 from \$20.2 million at September 30, 2004 to \$21.0 million at June 30, 2005. This increase is due to net earnings, proceeds from the exercise of stock options, and the amortization of ESOP and stock-based awards, partially offset by an increase in unrealized loss on investments and the payment of cash dividends.

The Bank is required to maintain certain minimum capital requirements under 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, 2005 and 2004, the Bank paid cash dividends of \$318,756 and \$312,553, respectively to its stockholders other than the Company. Cash dividends of \$7,180,000 have been waived by the Company through June 30, 2005. 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.

# LIBERTY SAVINGS BANK, F.S.B.

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

The Bank has filed with the Office of Thrift Supervision a notice of intent to pay a cash dividend for the quarterly period ending September 30, 2005. The Company submitted an application requesting permission to waive its right to receive its cash dividend for the proposed dividend on September 23, 2005, as well as the following three calendar quarters. OTS approval of the waiver of dividends by the Company may be rescinded prior to the dividend declaration date.

The Bank's actual and required capital amounts and ratios at June 30, 2005 are as follows:

	Actual		Minimum Required			
			for Capital Adequacy		to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
Stockholders' equity	\$ 20,999					
Computer software costs	(75)					
Unrealized loss on securities AFS, net	224					
Tangible capital	\$ 21,148	9.0%	\$ 3,511	1.5%		
General valuation allowance	2,042					
Total capital to risk-weighted assets	\$ <u>23,190</u>	13.2%	\$ 14,069	8.0%	\$ 17,587	10.0%
Tier 1 capital to risk-weighted assets	\$ 21,148	12.0%	\$ 7,035	4.0%	\$ 10,552	6.0%
Tier 1 capital to total assets	\$ 21,148	9.0%	\$ 9,363	4.0%	\$ 11,704	5.0%

### Asset Quality

The following table sets forth information with respect to the Bank's impaired loans at the dates indicated.

	June 30, 2005	September 30, 2004
Nonaccrual loans	\$ 323,535	723,010
Other impaired loans	1,573,261	2,932,464
Total impaired loans	\$ <u>1,896,796</u>	<u>3,655,474</u>
Allowance for losses on impaired loans	\$ <u>386,208</u>	<u>655,302</u>
Impaired loans with no allowance for loan losses	\$ <u>143,767</u>	<u>-</u>

Through July 2005, approximately \$1,105,000 of loans impaired at September 30, 2004 were paid off and \$953,000 have been repossessed through foreclosure. The provision for loan loss was increased by \$640,000 in September 2004 related to these impaired loans secured by 1-4 family investment properties.

# LIBERTY SAVINGS BANK, F.S.B.

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

At June 30, 2005, all loans 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 have been disclosed as nonaccrual, 90 days past due, or restructured.

Under the Bank's internal review policy, loans classified as substandard decreased from \$2.9 million at September 30, 2004 to \$1.9 million at June 30, 2005. Loans identified as special mention at June 30, 2005 and September 30, 2004 amounted to \$403,000 and \$3.9 million, respectively. The Bank received a payoff on loans totaling \$947,000 from one borrower which was listed as special mention at September 30, 2004. The remaining loans listed as special mention at September 30, 2004 were removed due to satisfactory performance.

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

Balance at September 30, 2004	\$ 2,024,298
Charge-offs	(269,509)
Recoveries	2,226
Provision charged to expense	<u>285,000</u>
Balance at June 30, 2005	<u>\$ 2,042,015</u>

### Results of Operations

Net earnings increased from \$387,000 for the three months ended June 30, 2004 to \$432,000 for the three months ended June 30, 2005. Net earnings increased due to higher net interest income, lower provision for loan losses, and higher noninterest income; partially offset by higher noninterest expense, a decrease in gain on sale of loans, and an increase in income tax expense.

Net earnings increased from \$1.0 million for the nine months ended June 30, 2004 to \$1.2 million for the nine months ended June 30, 2005. Net interest income and noninterest income increased, offset by a higher provision for loan losses and higher noninterest expense. Noninterest expense increased due to substantially higher compensation expense due to additional personnel and a new retail branch location, increased occupancy expense, and higher noninterest expenses.

Net interest income increased from \$1.63 million for the three months ended June 30, 2004 to \$1.99 million for the three months ended June 30, 2005. Net interest income increased for the nine-month period from \$4.87 million in 2004 to \$5.74 million in 2005. These increases were due to a higher interest rate spread and an increase in loans receivable. The Bank's interest rate spread was 3.19% for the three months ended June 30, 2004 and 3.49% for the three months ended June 30, 2005. The increased interest rate spread is primarily due to rising short-term interest rates and the Bank's decision to originate adjustable and balloon loans. The average yield on interest-earning assets and the average cost of interest-bearing liabilities increased by 73 and 43 basis points, respectively for the three months ended June 30, 2005 as compared to the three months ended June 30, 2004. The Bank has funded loan growth since June 2004 primarily through short-term certificate of deposit accounts.

Interest income on loans receivable for the three-month period increased as a result of a higher average balance and higher average yields. The average yield on loans receivable increased from 6.00% for the three months ended June 30, 2004 to 6.65% for the three months ended June 30, 2005. The average loan balance increased from \$156.9 million to \$178.0 million for the three months ended June 30, 2004 and 2005, respectively. Interest income on mortgage-backed securities increased from \$178,000 for the three months ended June 30, 2004 to \$194,000 for the three months ended June 30, 2005. There was no significant change in the average balances. Interest income on securities increased from \$87,000 for the three months ended June 30, 2004 to \$109,000 for the three months ended June 30, 2005. This was due primarily to an increase in the average yield from 2.82%

# LIBERTY SAVINGS BANK, F.S.B.

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

for the three months ended June 30, 2004 to 3.61% for the three months ended June 30, 2005. Interest on other interest-earning assets increased from \$16,000 for the three months ended June 30, 2004 to \$52,000 for the three months ended June 30, 2005 due to a significantly higher average yield. The average yield for the three months ended June 30, 2004 and 2005 was 0.95% and 3.08%, respectively.

Interest income on loans receivable increased from \$7.0 million for the nine-month period ended June 30, 2004 to \$8.5 million for the nine-month period ended June 30, 2005. The increase is attributable to a higher average balance and average yield. Interest income on mortgage-backed securities increased slightly. For the nine-month period, interest income on securities increased \$80,000 due to a higher average balance and yield. Interest income on other interest-earning assets increased \$67,000 to \$103,000 for the nine-month period as a result of a significantly higher average yield, partially offset by a slightly lower average balance.

Interest expense on deposits for the three months ended June 30, 2005 increased as a result of a higher average balance and average rate. The weighted-average rate on deposits increased from 1.91% for the three months ended June 30, 2004 to 2.41% for the comparable 2005 period. The average balance increased from \$153.0 million for the three months ended June 30, 2004 to \$171.5 million for the three months ended June 30, 2005. For the nine-month period ended June 30, 2005 as compared to the nine-month period ended June 30, 2004 interest expense on deposits increased as a result of a higher average balance and higher average rate. The average balance on deposits increased from \$146.4 million for the nine months ended June 30, 2004 to \$165.5 million for the comparable period in 2005. Interest expense on advances from the FHLB increased due to a higher average balance and a higher average rate.

The provision for loan losses was \$0 and \$54,000 for the three months ended June 30, 2005 and 2004, respectively. The provision increased from \$149,000 for the nine months ended June 30, 2004 to \$285,000 for the comparable 2005 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.

Noninterest income increased slightly from \$313,000 for the three months ended June 30, 2004 to \$339,000 for the three months ended June 30, 2005. The increase was due to higher deposit account and loan service charges, partially offset by a lower gain on sale of loans. Noninterest income increased from \$773,000 for the nine months ended June 30, 2004 to \$862,000 for the nine months ended June 30, 2005, primarily from deposit account service charges, partially offset by a decrease in gain on sale of mortgage-backed securities and gain on sale of loans. The increase in deposit account services charges is due to the Bank's strategy to increase checking accounts and related fee income generated on checking account overdrafts. Gains on sale of MBSs are not a stable source of income. Gain on sale of loans is affected by the level of market interest rates.

Noninterest expense increased from \$1.3 million for the three months ended June 30, 2004 to \$1.6 million for the three months ended June 30, 2005. For the nine month-periods ended June 30, 2005 and 2004, noninterest expense increased by \$620,000. Compensation and benefits increased primarily due to the hiring of additional personnel and salary increases, partially offset by a higher deferral of loan origination salary costs. Deferred loan origination costs are higher due to increased activity in the commercial loan area. Occupancy expense increased primarily due to the lease of land for a future branch of the Bank in Kansas City, Missouri, and to a lesser extent the opening of a new branch in Independence, Missouri. For the three-month periods ended June 30, 2004 and



## LIBERTY SAVINGS BANK, F.S.B.

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

2005, operations from foreclosed real estate, net resulted in \$28,000 in net gains and \$70,000 in expenses, respectively. Operations from foreclosed real estate resulted in a \$45,000 net gain for the nine months ended June 30, 2005, as compared to \$27,000 net gain for the nine months ended June 30, 2004.

The net gain for the nine-month period ended June 30, 2005 includes a \$170,000 gain that the Bank recognized on foreclosed real estate in January 2005, as a result of a payoff of a development loan. Professional and regulatory services decreased from \$85,000 for the three months ended June 30, 2004 to \$68,000 for the three months ended June 30, 2005. The decrease in professional and regulatory services for the three-month period is the result of lower professional fees, partially offset by higher recruitment expenses for hiring additional personnel. Professional and regulatory services increased \$32,000 for the nine-month period ended June 30, 2005 as compared to the comparable period in 2004 due to higher recruitment expenses, slightly offset by lower professional fees. The increase in advertising expense can be attributed to the reintroduction of the direct mail campaign in January 2005 and advertising to promote the Bank's continued growth. Supplies expense increased due to general Bank growth, including the opening of a new branch. Other noninterest expense increased from \$101,000 for the three months ended June 30, 2004 to \$134,000 for the three months ended June 30, 2005. Other noninterest expense increased by \$112,000 for the nine-month period ended June 30, 2005 as compared to the nine-month period ended June 30, 2004. Other noninterest expense rose primarily as a result of higher insurance, telephone and charitable contribution expenses.

Income taxes increased for the nine months ended June 30, 2005 due to higher earnings before income taxes as compared to the nine months ended June 30, 2004. For the comparable three-month periods ended June 30, 2004 and 2005, income taxes were \$229,000 and \$254,000, respectively.

# 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 – Unregistered Sales of Equity Securities and Use of Proceeds

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

(a) Exhibits:

- 31.1: Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2: Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99: On July 15, 2005 the Bank issued a press release announcing its unaudited financial results for the quarter-ended June 30, 2005. \*

\* Incorporated herein by reference into this document from Exhibit 99 to the Form 8-K filed with the Office of Thrift Supervision on July 18, 2005. (OTS Docket No. 5964)

## 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 10, 2005

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

BY: Marc J. Weishaar  
Marc J. Weishaar, 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 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 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 small business issuer 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 quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly 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 10, 2005



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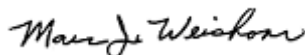
Brent M. Giles  
President & Chief Executive Officer

**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 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 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 small business issuer 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 quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly 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 10, 2005



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Marc J. Weishaar  
Senior Vice President & Chief Financial Officer

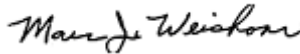
**Certification of Chief Executive Officer and Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

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, 2005 (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 10, 2005