2010

LIBERTY BANCORP, INC.

Annual Report

LIBERTY BANCORP, INC. 16 West Franklin • Liberty, Missouri 64068 • 816.781.4822

Dear Fellow Shareholder,

During a year of continued historic challenges, I'm pleased to report that Liberty Bancorp and its wholly-owned subsidiary, BankLiberty, performed at record-levels. The execution of a focused plan by dedicated staff allowed us to overcome many of the hurdles that continue to negatively affect the banking industry. Through much hard work by many people, we were able to post record earnings, keep non-performing assets at a manageable level, and take advantage of market opportunities through an FDIC assisted acquisition.

The financial industry's struggles through recent years have resulted in the consolidation of failed institutions into stronger ones. Watching our competitors fail is not something we like to see since it negatively impacts so many people. However, the positive is that healthy banks are able to step in and assume the operations of these banks. In April 2010, we moved into the St. Louis market by assuming the operations of the former Champion Bank from the FDIC. This acquisition, combined with improved core earnings, contributed to our record income in 2010. We are excited about the possibilities of now operating in the two largest Missouri markets.

Despite continued economic challenges and an increased regulatory burden that not only increases costs but also threatens revenue, we are confident about our financial condition and competitive position. The monitoring of our asset quality and reduction of non-performing assets will remain a focus for the foreseeable future. Substantial improvement depends on an improving employment picture and recovery of the real estate sector.

We will continue to provide true community banking to the markets we serve. We now have the largest branch network in the Kansas City Northland. By combining this network with second-to-none access to decision makers, we will continue to provide the professional, knowledgeable, and friendly service that has underpinned our profitable growth in a challenging economy.

In conclusion, 2010 was a difficult but successful year. We expect many of the difficulties to persist in 2011 and beyond as the nation begins to slowly emerge from the recession. We are confident that we are well-positioned to prosper in an improved economy and remain optimistic about the future of community banking.

Sincerely,

Brent M Giles

Brent M. Giles
President & Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL DATA

Selected Financial Data:

	At September 30th,				
	2010	**2009**	**2008**	**2007**	**2006**
	(dollars in thousands)				
Total assets	$ 457,996	$ 392,398	$ 336,185	$ 333,186	$ 287,561
Securities and mortgage-backed securities	12,655	29,721	40,043	67,260	60,100
Loans receivable, net	339,797	302,246	256,713	232,308	200,222
Deposits	338,170	276,203	219,764	252,305	198,471
Total borrowings	69,123	69,688	70,053	27,652	37,448
Stockholders' equity	47,413	43,785	44,009	50,195	48,982

Operating Results

	For the Years Ended September 30th,				
	2010	**2009**	**2008**	**2007**	**2006**
	(dollars in thousands)				
Total interest income	$ 21,711	$ 19,959	$ 20,156	$ 20,563	$ 16,664
Total interest expense	5,412	6,619	9,384	10,494	7,600
Net interest income	16,299	13,340	10,772	10,069	9,064
Provision for loan losses	2,642	1,569	1,881	602	852
Net interest income after provision for loan losses	13,657	11,771	8,891	9,467	8,212
Total noninterest income	6,712	2,251	2,124	1,477	1,237
Total noninterest expense	13,256	11,575	8,387	8,046	7,203
Earnings before income taxes	7,113	2,447	2,628	2,898	2,246
Income taxes	2,367	671	706	954	783
Net earnings	$ 4,746	$ 1,776	$ 1,922	$ 1,944	$ 1,463

Other Financial Data

	At or For the Years Ended September 30th,				
	2010	**2009**	**2008**	**2007**	**2006**
	(dollars in thousands, except per share amounts)				
Return on assets (1)	1.12%	0.47%	0.57%	0.63%	0.56%
Return on stockholders' equity (2)	10.44	4.07	4.18	3.94	5.47
Stockholders' equity to total assets ratio (3)	10.69	11.65	13.61	16.00	10.16
Non-performing non-covered assets as a percentage of total assets	4.43	1.41	3.91	1.53	2.02
Efficiency ratio	57.61	74.24	65.04	69.68	69.93
Dividend payout ratio (4)	7.48%	20.62%	20.97%	23.86%	29.86%
Cash dividends (actual dollar amount)	$ 355,069	$ 366,120	$ 402,956	$ 463,842	$ 436,876
Common shares outstanding - end of period	3,564,769	3,621,875	3,936,710	4,761,187	4,760,137

Per share data

Basic earnings per common share	$ 1.33	$ 0.50	$ 0.48	$ 0.42	$ 0.32
Diluted earnings per common share	1.32	0.49	0.47	0.42	0.31
Book value per common share	13.30	12.09	11.18	10.54	10.29
Cash dividends per share	0.10	0.10	0.10	0.10	0.20

(1) Net earnings divided by average assets.
(2) Net earnings divided by average stockholders' equity.
(3) Average stockholders' equity divided by average total assets.
(4) Represents dividends paid to stockholders as a percent of net earnings.

MICHAEL TROKEY & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
10411 CLAYTON ROAD
ST. LOUIS, MISSOURI 63131

Report of Independent Auditors

Audit Committee, Board of Directors and Stockholders
Liberty Bancorp, Inc.
Liberty, Missouri

We have audited the accompanying consolidated balance sheets of Liberty Bancorp, Inc. and subsidiary ("the Company") as of September 30, 2010 and 2009 and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Bancorp, Inc. and subsidiary as of September 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Michael Trokey + Company, P.C.

St. Louis, Missouri
January 12, 2011

LIBERTY BANCORP, INC.

Consolidated Balance Sheets

September 30, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	$ 13,014,980	$ 26,512,327
Federal funds sold	20,592,000	-
Total cash and cash equivalents	33,606,980	26,512,327
Securities available for sale, at market value (amortized cost of $8,390,161 and $19,988,207, respectively)	7,957,325	20,764,176
Mortgage-backed securities ("MBSs") - available for sale, at market value (amortized cost of $4,586,247 and $8,822,806, respectively)	4,698,029	8,956,810
Stock in Federal Home Loan Bank of Des Moines ("FHLB")	3,500,100	3,910,100
Loans receivable, excluding covered loans, net of allowance for loan losses of $4,091,963 and $3,536,837, respectively	280,563,944	302,246,097
Covered loans receivable, net of discounts	59,233,356	-
Total loans receivable, net	339,797,300	302,246,097
Loans held for sale	5,664,906	459,270
Premises and equipment, net	13,142,303	12,702,627
Bank-owned life insurance ("BOLI")	9,407,219	8,975,562
Non-covered foreclosed real estate, net	4,610,636	2,822,423
Covered foreclosed real estate, net	7,771,980	-
Total foreclosed real estate, net	12,382,616	2,822,423
Accrued interest receivable	1,399,747	1,557,970
Goodwill	1,191,603	1,191,603
Core deposit intangibles, net	894,917	865,333
Deferred tax asset	434,886	951,360
FDIC indemnification asset	21,921,688	-
Other assets	1,996,675	482,180
Total assets	$ 457,996,294	$ 392,397,838
Liabilities and Stockholders' Equity		
Deposits	$ 338,169,664	$ 276,203,274
Accrued interest payable on deposits	217,632	307,911
Advances from FHLB	68,228,169	69,140,862
Securities sold under agreement to repurchase	895,101	547,019
Advances from borrowers for taxes and insurance	1,186,744	1,079,264
Other liabilities	1,886,425	1,334,817
Total liabilities	410,583,735	348,613,147
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; shares issued and outstanding - none	-	-
Common stock, $0.01 par value; 20,000,000 shares authorized; 4,761,712 shares issued	47,617	47,617
Treasury stock at cost, 1,196,943 and 1,139,837 shares at September 30, 2010 and 2009, respectively	(11,651,934)	(11,100,506)
Additional paid-in capital	32,918,721	32,600,040
Common stock acquired by ESOP	-	(268,805)
Accumulated other comprehensive (loss) earnings, net	(158,922)	640,636
Retained earnings - substantially restricted	26,257,077	21,865,709
Total stockholders' equity	47,412,559	43,784,691
Total liabilities and stockholders' equity	$ 457,996,294	$ 392,397,838

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Earnings

Years Ended September 30, 2010 and 2009

	2010	2009
Interest income:		
Loans receivable	$ 20,707,806	$ 18,255,137
Mortgage-backed securities	252,166	497,239
Securities - taxable	295,259	687,244
Securities - non-taxable	437,535	515,185
Other interest-earning assets	18,262	3,871
Total interest income	21,711,028	19,958,676
Interest expense:		
Deposits	3,758,053	5,109,490
Securities sold under agreement to repurchase	16,749	24,868
Advances from FHLB	1,637,258	1,484,145
Total interest expense	5,412,060	6,618,503
Net interest income	16,298,968	13,340,173
Provision for loan losses	2,641,748	1,568,912
Net interest income after provision for loan losses	13,657,220	11,771,261
Noninterest income:		
Loan service charges	104,788	87,358
Gain on sale of loans, net of costs	559,366	437,059
Gain on sale of securities available for sale	588,009	54,293
(Loss) gain on sale of MBSs available for sale	(4,616)	51,620
Bargain purchase gain from acquisition of Champion Bank	3,284,359	-
Other-than-temporary impairment ("OTTI") loss on equity security	-	(113,126)
Change in cash surrender value of BOLI	431,657	437,034
Deposit account service charges	1,380,452	1,296,688
Increase (decrease) in indemnification asset	368,350	-
Total noninterest income	6,712,365	2,250,926
Noninterest expense:		
Compensation and benefits	6,391,284	5,101,735
Occupancy expense	1,011,040	910,844
Equipment and data processing expense	1,616,888	1,223,851
Operations from foreclosed real estate, net	552,749	1,540,466
FDIC premium expense	494,999	550,000
Professional and regulatory services	901,694	568,112
Advertising	140,032	313,555
Correspondent banking charges	115,527	125,640
Supplies	154,210	183,323
Amortization of core deposit intangibles	557,416	190,667
Impairment of bank premises	161,143	-
Other	1,159,166	867,297
Total noninterest expense	13,256,148	11,575,490
Earnings before income taxes	7,113,437	2,446,697
Income taxes:		
Current	1,406,000	954,000
Deferred	961,000	(283,000)
Total income taxes	2,367,000	671,000
Net earnings	$ 4,746,437	$ 1,775,697
Basic earnings per share	$ 1.33	$ 0.48
Diluted earnings per share	$ 1.32	$ 0.48

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Comprehensive Earnings

Years Ended September 30, 2010 and 2009

	2010	2009
Net earnings	$ 4,746,437	$ 1,775,697
Other comprehensive earnings:		
Unrealized gains (losses) on securities and mortgage-backed securities available for sale, net:		
Reclassification adjustment for gains included in earnings, net of tax of $(204,283) and $(62,423), respectively	(379,110)	(43,490)
Reclassification adjustment of OTTI loss, net of tax of $0	-	113,126
Unrealized gains (losses) arising during the year, net of tax of $(233,213) and $160,902, respectively	(407,392)	290,374
Decrease in unrealized gain on benefit plans, net of tax of $(7,030) and $(6,385), respectively	(13,056)	(11,858)
Comprehensive earnings	$ 3,946,879	$ 2,123,849

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Stockholders' Equity

Years Ended September 30, 2010 and 2009

	Common Stock	Tresury Stock	Additional Paid-In Capital	Common Stock Acquired by ESOP	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total Stockholders' Equity
Balance at September 30, 2008	$ 47,617	(8,632,753)	32,320,258	(474,634)	20,456,132	292,484	44,009,104
Treasury stock	-	(2,467,753)	-	-	-	-	(2,467,753)
Amortization of ESOP award	-	-	(16,790)	205,829	-	-	189,039
Amortization of stock awards	-	-	249,977	-	-	-	249,977
Amortization of stock option grants	-	-	46,595	-	-	-	46,595
Unrealized gain on securities available for sale, net	-	-	-	-	-	360,010	360,010
Decrease in unrealized gain on benefit plans, net	-	-	-	-	-	(11,858)	(11,858)
Cash dividends of $.10 per share	-	-	-	-	(366,120)	-	(366,120)
Net earnings	-	-	-	-	1,775,697	-	1,775,697
Balance at September 30, 2009	$ 47,617	(11,100,506)	32,600,040	(268,805)	21,865,709	640,636	43,784,691
Treasury stock	-	(551,428)	-	-	-	-	(551,428)
Amortization of ESOP award	-	-	23,454	268,805	-	-	292,259
Amortization of stock awards	-	-	253,368	-	-	-	253,368
Amortization of stock option grants	-	-	41,859	-	-	-	41,859
Unrealized loss on securities available for sale, net	-	-	-	-	-	(786,502)	(786,502)
Decrease in unrealized gain on benefit plans, net	-	-	-	-	-	(13,056)	(13,056)
Cash dividends of $.10 per share	-	-	-	-	(355,069)	-	(355,069)
Net earnings	-	-	-	-	4,746,437	-	4,746,437
Balance at September 30, 2010	$ 47,617	(11,651,934)	32,918,721	-	26,257,077	(158,922)	47,412,559

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Cash Flows

Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net earnings	$ 4,746,437	$ 1,775,697
Adjustments to reconcile net earnings to net		
cash provided by (used for) operating activities:		
Depreciation expense	719,640	684,417
Amortization of core deposit intangibles	557,416	190,667
Accretion of discount on loans acquired	(29,000)	-
Accretion of discount on FDIC indemnification asset	(368,350)	-
Accretion of discount on FDIC true-up liability	8,308	-
Amortization of premium on FHLB advances assumed	(97,685)	-
ESOP expense	292,259	189,039
Incentive Plan expense	295,227	296,572
Amortization of premiums (discounts) on investments, net	15,174	(55,810)
Amortization of premiums on uncovered loans	10,000	65,333
Amortization of deferred loan fees, net	(56,319)	(91,555)
Provision for loan losses	2,641,748	1,568,912
Loans held for sale - originated	(48,695,564)	(35,482,786)
Loans held for sale - proceeds from sale	44,049,294	36,337,821
(Gain) loss on foreclosed real estate, net	377,674	1,341,181
Gain on sale of securities available for sale	(588,009)	(54,293)
Loss (gain) on sale of MBSs available for sale	4,616	(51,620)
Other-than-temporary impairment loss on equity security	-	113,126
Impairment loss on bank premises	161,143	-
Gain on sale of loans, net	(559,366)	(437,059)
Change in cash surrender value of BOLI	(431,657)	(437,034)
Bargain purchase gain from acquisition of Champion Bank	(3,284,359)	-
Decrease (increase) in:		
Accrued interest receivable	158,223	293,371
Other assets	(823,240)	613,415
Deferred tax assets	961,000	(505,718)
Increase (decrease) in:		
Accrued interest on deposits and other liabilities	(242,993)	(120,139)
Net cash provided by (used for) operating activities	$ (178,383)	$ 6,233,537

(Continued)

LIBERTY BANCORP, INC.

Consolidated Statements of Cash Flows

Years Ended September 30, 2010 and 2009

		2010		2009
(Continued)				
Cash flows from investing activities:				
Net change in loans receivable	$	21,779,744	$	(30,729,060)
Mortgage-backed securities available for sale:				
Purchased		(4,000,623)		-
Proceeds from sales		3,957,256		-
Principal collections		3,494,011		-
Proceeds from maturity		781,826		-
Securities available for sale:				
Purchased		(21,961,392)		(254,698)
Proceeds from sales		15,275,315		11,283,720
Proceeds from maturity or call		30,124,935		4,105,000
Principal collections		100,884		5,449,916
Purchase of stock in FHLB		(2,494,700)		(678,000)
Redemption of stock in FHLB		2,904,700		412,500
Proceeds from the sale of foreclosed real estate, net		4,964,324		5,169,454
Purchase of premises and equipment		(1,320,459)		(821,580)
Payments received from FDIC under Loss Share Agreement		2,395,840		-
Cash paid in acquisition of KLT Bancshares, Inc., net		-		(1,164,119)
Cash received in acquisition of Champion Bank		79,893,307		-
Net cash provided by (used for) investing activities	$	135,894,968	$	(7,226,867)
Cash flows from financing activities:				
Net increase (decrease) in deposits	$	(96,474,661)	$	22,475,316
Increase (decrease) in advances from borrowers for				
taxes and insurance		107,480		145,100
Proceeds from advances from the FHLB		55,346,672		597,766,000
Repayment of advances from the FHLB		(87,043,008)		(597,866,008)
Securities sold under agreement to repurchase:				
Proceeds		12,709,667		10,145,371
Repayments		(12,361,585)		(10,410,852)
Repurchase of common stock		(551,428)		(2,467,753)
Cash dividends		(355,069)		(366,120)
Net cash provided by (used for) financing activities		(128,621,932)		19,421,054
Net increase (decrease) in cash and cash equivalents		7,094,653		18,427,724
Cash and cash equivalents at beginning of year		26,512,327		8,084,603
Cash and cash equivalents at end of year	$	33,606,980	$	26,512,327

(Continued)

LIBERTY BANCORP, INC.

Consolidated Statements of Cash Flows

Years Ended September 30, 2010 and 2009

	2010	2009
(Continued)		
Supplemental disclosures of cash flow information:		
Cash paid (received) during the year for:		
Interest on deposits	$ 3,848,332	$ 5,315,069
Interest on advances from FHLB	1,637,703	1,489,088
Interest on securities sold under agreement to repurchase	16,749	24,868
Income taxes	1,428,818	864,615
Real estate acquired in settlement of loans	9,851,275	5,964,750
Loans originated to finance the sale of foreclosed real estate	13,855	1,568,047
Net cash paid in acquisition of KLT Bancshares, Inc.:		
Cash paid to Farley State Bank shareholders	$ -	$ (4,500,000)
Acquisition costs paid	-	(251,256)
Total cash payments	-	(4,751,256)
Cash and cash equivalents acquired	-	3,587,137
Net cash paid in acquisition	-	(1,164,119)
Net cash received in acquisition of Champion Bank:		
Cash received from FDIC in acquisition	$ 51,256,000	$ -
Cash and cash equivalents acquired	28,637,307	-
Net cash received in acquisition	$ 79,893,307	$ -

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Liberty Bancorp, Inc. (the "Company") is a Missouri corporation and holding company for BankLiberty (the "Bank").

On April 30, 2010 ("Acquisition Date"), BankLiberty entered into a Purchase and Assumption Agreement ("Loss Share Agreement") with the Federal Deposit Insurance Corporation ("FDIC") to acquire certain assets and assume all deposits of Champion Bank, headquartered in Creve Coeur, Missouri. Under the Loss Share Agreement, the FDIC has agreed to reimburse the Bank for 80% of the losses on loans and foreclosed real estate acquired ("covered assets").

Subsequent events have been evaluated through January 12, 2011, which is the date the financial statements were available to be issued.

The following comprise the significant accounting policies, which the Company and Bank follow in preparing and presenting their consolidated financial statements:

a. The consolidated financial statements include the accounts of the Company and its wholly- owned subsidiary, BankLiberty. The Company's principal business is the business of the Bank. All significant intercompany accounts and transactions have been eliminated.

b. For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing funds in other banks with original maturities of three months or less. The Company maintains cash in bank accounts which may exceed federally insured limits. The Company does not believe it is exposed to any significant credit risk. Interest-bearing funds in other banks, including federal funds sold, were $22,475,186 and $16,820,427 at September 30, 2010 and 2009, respectively. A restricted cash account of $560,510 related to clearing of checks was held in a correspondent bank at September 30, 2010 and 2009.

c. Securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at cost, adjusted for amortization of premiums and accretion of discounts over the life of the security using the interest method. Securities not classified as held to maturity securities are classified as available for sale securities and are reported at fair value, with unrealized gains and losses excluded from net earnings and reported as a separate component of stockholders' equity. Unrealized losses on securities, net of tax of $117,899, amounted to $203,155 at September 30, 2010. Unrealized gains on securities, net of tax of $326,626, amounted to $583,347 at September 30, 2009. The Company does not purchase securities for trading purposes.

   The cost of securities sold is determined by specific identification. Declines in fair value of securities available for sale that are deemed to be other-than-temporary are charged to earnings as a realized loss. In estimating other-than-temporary impairment losses, management of the Company considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company's intent to sell the security or whether it is more likely than not that it will be required to sell the security before the anticipated recovery of its remaining amortized cost basis and adverse changes to expected cash flows.

Stock in the FHLB is recorded at cost, which represents redemption value. Dividends received on such stock are reported as income. The Bank is a member of the Federal Home Loan Bank system. BankLiberty is required by Federal law to own FHLB common stock based upon a certain percentage of the Bank's assets and FHLB advances.

FHLB stock is evaluated for impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 942-325-35, "Financial Services - Depository and Lending – Investments - Other." Determination of whether the FHLB stock is impaired is based on the assessment of the ultimate recoverability of cost rather than by recognizing declines in value. The determination of whether a decline affects the ultimate recoverability of costs is influenced by the significance of the decline in net assets compared to the capital of the FHLB and the length of time this situation has persisted; the ability of the FHLB to make payments required by law or regulation and operating performance; the impact of legislative and regulatory changes on member institutions and customer base and the liquidity position of the FHLB.

Management believes that no impairment charge on FHLB stock is necessary at September 30, 2010.

Collateralized mortgage obligations ("CMOs") included in mortgage-backed securities are mortgage derivatives and the type owned by the Bank is classified as "low risk" under regulatory guidelines. CMOs are subject to the effects of interest rate risk. The Bank does not purchase CMOs at any significant premium over par value to limit certain prepayment risks.

d. Loans receivable, net are carried at unpaid principal balances, less loans in process, net deferred loan fees, unearned discount and allowance for losses.

Loans acquired in the FDIC assisted acquisition of Champion Bank are included in the Loss Share Agreement and are reported exclusive of the cash flow reimbursements expected from the FDIC.

Loans originated and held for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gain on sale of loans is recognized once title has passed to the purchaser, substantially all risks and rewards of ownership have irrevocably passed to the purchaser and recourse obligations, if any, are minor and can be reasonably estimated.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized to interest income over the contractual life of the loan using the interest method.

e. Valuation allowances are established for impaired loans for the difference between the loan amount and the fair value of collateral less estimated selling costs. The Bank considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The types of loans for which impairment is measured include nonaccrual income property loans (excluding those loans included in the homogenous portfolio which are collectively reviewed for impairment), large, nonaccrual single-family loans and troubled debt restructurings. Such loans are placed on nonaccrual status at the point deemed uncollectible. Impairment losses are recognized through an increase in the allowance for loan losses. A loan is considered delinquent when a payment has not been made by the contractual due date.

f. Allowances for losses are available to absorb losses incurred on loans receivable and foreclosed real estate and represent additions charged to expense, less net charge-offs. Loans are charged-off in the period deemed uncollectible. Recoveries of loans previously charged-off are recorded when received. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired, for which the carrying value of the loan exceeds the fair value of the collateral or the present value of expected future cash flows, or loans otherwise adversely classified. The general component covers non-impaired loans and is based on the historical loan loss experience, including adjustments to historical loss experience, maintained to cover uncertainties that affect the Bank's estimate of probable losses for each loan type. The adjustments to historical loss experience are based on evaluation of several factors, including primarily changes in lending policies and procedures; changes in collection, charge-off and recovery practices; changes in the nature and volume of the loan portfolio; changes in the volume and severity of nonperforming loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; and changes in current, national and local economic and business conditions. Management believes that all known losses in the loan portfolio that are probable and reasonable to estimate have been recorded as of each balance sheet date.

g. The Bank follows FASB ASC 310-30, "Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality," and reviews each loan acquired in a business combination to determine whether there is evidence of deterioration of credit quality since origination and it is probable that the Bank will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, such loans are accounted for individually or pooled based upon common characteristics, including loan type. The excess of the scheduled contractual payments over all cash flows expected at acquisition of the individual loans or pools is a nonaccretable difference. The amount representing the excess of the loan's cash flows expected to be collected over the amount paid for the loans is accreted into interest income over the remaining life of the loan or pool as an accretable yield with consideration of actual prepayments. Over the remaining life or pool, the Bank continues to estimate cash flows expected to be collected. For loans with decreases in cash flows expected to be collected, a loss is recognized. For loans with increases in cash flows expected to be collected, the accretable yield is increased and recognized on a prospective basis over the remaining life of the loan or pool. Allowance for losses on acquired loans reflects only losses incurred after acquisition.

h. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation of premises and equipment is computed using the straight-line method based on the estimated useful lives of the related assets. Estimated lives are five to forty years for buildings and improvements, and three to ten years for furniture and equipment.

i. Foreclosed real estate is carried at the lower of cost or fair value less estimated selling costs based upon an appraisal or internal valuation of the property. Costs related to improvement of real estate are capitalized. Foreclosed assets also include properties for which the Bank has taken physical possession, even though formal foreclosure proceedings have not taken place.

Covered foreclosed real estate represents real estate acquired in the FDIC assisted acquisition of Champion Bank. Such real estate is recorded at fair value at the date of acquisition and subject to the terms of the Loss Share Agreement.

j. Interest on securities and loans receivable is accrued as earned. Interest on loans receivable contractually delinquent is excluded from income when deemed uncollectible. When a loan is classified as nonaccrual, accrued interest is reversed against current income. Subsequent collection of interest on nonaccrual loans is recorded as income when received or applied to reduce the loan balance. Accrual of interest is resumed on previously classified nonaccrual loans, when there is no longer any reasonable doubt as to the timely collection of interest.

Accrued interest receivable as of September 30, 2010 and 2009 is summarized as follows:

	2010	2009
Securities	$ 113,376	$ 290,893
Loans receivable	1,286,371	1,267,077
	$ 1,399,747	$ 1,557,970

k. Bank owned life insurance is carried at the cash surrender value. Changes in the cash surrender value, including interest income, increases and decreases in value and policy expenses, are recognized as a component of noninterest income.

l. The Bank accounts for the reimbursement of covered assets under the FDIC Loss Share Agreement (“FDIC indemnification asset”) in accordance with FASB ASC 805-20, “Business Combinations-Identifiable Assets and Liabilities, and Any Noncontrolling Interest.” The FDIC indemnification asset represents the present value of all the cash flows from covered assets that the Bank expects to collect from the FDIC. The discount on the indemnification asset is being accreted over the expected term until FDIC payment is received. As actual cash flows increase or decrease from what was expected at the acquisition date, the FDIC indemnification asset will decrease and increase, respectively, with the offset recognized in noninterest income in the statement of net earnings. Covered assets that become impaired increase the indemnification asset.

m. Deferred tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities which will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more likely than not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. No adjustments were recognized for uncertain tax positions at September 30, 2010 or 2009. The Company is subject to U.S. Federal income taxes as well Missouri income taxes and special financial institution taxes. Tax years ending September 30, 2007 through 2010 remain open to examination by these jurisdictions. The Company recognizes interest and penalties related to tax positions in income tax expense. At September 30, 2010, there was no accrual for uncertain tax positions or related interest.

n. Under the measurement provisions of FASB ASC 718-10-30 and FASB ASC 718-10-35, "Compensation – Stock Compensation," compensation expense is recognized based on the fair value of unvested stock awards at the implementation date and new awards granted thereafter, which includes restricted stock and stock options, at the grant date and is recognized on a straight–line basis over the requisite service period. The fair value of stock options is estimated at the date of grant using the Black–Scholes pricing model and related assumptions. The risk–free rate is based on the U.S. Treasury zero–coupon issue with a remaining term equal to the expected term used as an assumption in the model. The expected term is based upon the average of the original contractual term and the vesting term. The expected volatility is based on historical volatility of the Company's stock.

o. For ESOP shares committed to be released, the Bank recognizes compensation expense equal to the average fair value of the shares committed to be released during the period in accordance with the provisions of FASB ASC 718-40-30, "Compensation – Stock Compensation – Employee Stock Ownership Plans."

p. Earnings per share are based upon the weighted-average shares outstanding. ESOP shares, which have been committed to be released and stock options, to the extent dilutive, are considered outstanding. Under the treasury stock method, stock options are dilutive when the average market price of the Company's common stock and effect of any unamortized compensation expense exceeds the option price during the year. In addition, proceeds from the assumed exercise of dilutive stock options and related tax benefit are assumed to be used to repurchase common stock at the average market price during the period. On October 1, 2009, the Company adopted recent accounting guidance included in FASB ASC 260-10, "Earnings Per Share ," which requires that unvested restricted stock awards that contain non-forfeitable rights to dividends are participating securities and are included in the EPS computation using the two-class method. Prior period EPS data is adjusted retrospectively. Prior period per share amounts were not impacted materially.

Following is a summary of basic and diluted earnings per common share for the years ended September 30, 2010 and 2009:

	2010	2009
Basic earnings per share:		
Net earnings	$ 4,746,437	$ 1,775,697
Less dividends paid:		
Common stock	349,721	358,634
Participating securities	5,348	7,486
Undistributed earnings	$ 4,391,368	$ 1,409,577
Weighted-average basic securities outstanding	3,520,623	3,615,510
Add:weighted-average participating securities outstanding	53,480	74,860
Total weighted-average basic shares and participating securities outstanding	3,574,103	3,690,370
Distributed earnings per share	$ 0.10	$ 0.10
Undistributed earnings per share	$ 1.23	$ 0.38
Net earnings per share	$ 1.33	$ 0.48
Diluted earnings per share:		
Undistributed earnings	$ 4,391,368	$ 1,409,577
Total weighted-average basic shares and participating securities outstanding	3,574,103	3,690,370
Add: Dilutive stock options	18,347	40,562
Total weighted-average diluted shares and participating securities outstanding	3,592,450	3,730,932
Distributed earnings per share	$ 0.10	$ 0.10
Undistributed earnings per share	$ 1.22	$ 0.38
Net earnings per share	$ 1.32	$ 0.48
Anti-dilutive option shares	28,670	37,184

q. The following paragraphs summarize recent accounting guidance and references to the FASB ASC:

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820)." ASC Topic 820 requires entities to disclose transfers in and out of levels 1 and 2, and to expand the reconciliation of level 3 fair value measurements by presenting separately information about purchases, sales, issuances and settlements. The updated guidance also clarifies disclosure requirements on the level of disaggregation (provide fair value measurement disclosures for each class of assets and liabilities) and inputs and valuation techniques (disclose for fair value measurements that fall in either level 2 or level 3). This guidance is effective for annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements in the reconciliation of level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Adoption of the new effective guidance did not significantly impact the Bank's financial statements.

In July 2010, the FASB issued ASU 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." Recent accounting guidance under ASC Topic 310, "Receivables," provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosure guidance is amended to require an entity to provide more information about the credit quality indicators, past due information and modifications. Disclosures must be disaggregated by portfolio segment (level at which an entity develops a methodology to determine its allowance for credit losses) and class of financing receivable based upon initial measurement attribute, risk characteristics and assessment of credit risk. The disclosures are effective for annual reporting periods ending on or after December 15, 2011.

(2) Risks and Uncertainties

The Bank is a community oriented financial institution, which provides traditional financial services within the areas it serves. The Bank is engaged primarily in the business of attracting deposits from the general public and using these funds to originate residential real estate loans, commercial business, commercial real estate and consumer loans primarily to customers located in Clay, Clinton, Jackson, Platte and St. Louis Counties of Missouri. Senior management of the Bank monitors the level of net interest income and noninterest income from various products and services. Further, operations of the Bank are managed and financial performance is evaluated on an institution-wide basis. As a result, all of the Bank's operations are considered by management to be aggregated in one reportable operating segment.

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions, which affect the reported amounts of assets and liabilities as of the balance sheet dates and income and expenses for the years covered. Actual results could differ significantly from these estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for loan losses, impairment of securities and the fair value of financial instruments.

The Bank's operations are affected by interest rate risk, credit risk, market risk and regulations by the Office of Thrift Supervision ("OTS"). The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice more rapidly, or on a different basis, than its interest-earning assets. To better control the impact of changes in interest rates, the Bank has sought to improve the match between asset and liability maturities or repricing periods and rates by emphasizing the origination of adjustable-rate mortgage loans, other loans with greater interest rate sensitivities than long-term, fixed rate loans and maintaining securities and advances from FHLB portfolio primarily with maturities of less than ten years. The Bank is also emphasizing transaction accounts, which are core deposits and are treated favorably in measurement of interest rate risk.

The Bank uses a net market value methodology provided by the OTS to measure its interest rate risk exposure. This exposure is a measure of the potential decline in the net portfolio value of the Bank based upon the effect of an assumed increase or decrease in interest rates in primarily 100 basis point increments. Net portfolio value is the expected net cash flows from the institution's assets, liabilities and off-balance sheet contracts. Credit risk is the risk of default on the Bank's loan portfolio that results from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank. The Bank is subject to periodic examination by regulatory agencies, which may require the Bank to record increases in the allowance 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.

(3) Business Combinations

On April 30, 2010, BankLiberty entered into a Loss Share Agreement with the FDIC to acquire certain assets and assume all deposits of Champion Bank, headquartered in Creve Coeur, Missouri. Under the Loss Share Agreement, the FDIC has agreed to reimburse the Bank for 80% of the losses on covered assets, which include losses on loans at April 30, 2010, accrued interest up to 90 days, the book value of foreclosed real estate, capitalized expenditures and certain expenses. The term of the Loss Share Agreement for single-family loans is ten years for both losses and recoveries and for non-single-family loans is five years for losses and eight years for recoveries.

Forty-five days following the tenth anniversary of the acquisition date, the Bank will be required to pay the FDIC a calculated amount if losses do not reach the projected level. Such calculated payment equals fifty-percent of the excess, if any of (i) twenty percent of the intrinsic loss estimate of $37,000,000 less (ii) the sum of (A) twenty-five percent of the asset discount plus (B) twenty-five percent of the cumulative loss share payments plus (C) the cumulative servicing amount. At September 30, 2010, the estimated liability ("FDIC true-up liability") of such amount is approximately $545,000, which is included in other liabilities in the consolidated balance sheets.

The acquisition of Champion Bank was accounted for under the purchase method of accounting in accordance with FASB ASC 805, "Business Combinations." The assets acquired and liabilities assumed were recorded at their respective acquisition date fair values based upon a valuation prepared by an independent third party, and the core deposit intangible was recorded at fair value. The Company is permitted under FASB ASC 805 to recognized additional fair value adjustments based upon new information about facts and circumstances that existed as of the acquisition date. The measurement period can not exceed one year from the acquisition date.

The Bank determined the fair value of the loans acquired based upon several assumptions. Factors considered included estimated cash flows for loans acquired, type of loans, fixed or adjustable interest rate, term of loan, current market discount rates, and payment status of loan. Loans were pooled according to similar characteristics when valuing such loans. In addition, management estimated the amount of credit losses that were expected to be realized for the acquired loans and foreclosed real estate. The discounted cash flow approach was generally utilized to value such assets.

Fair value yield adjustments on the assets acquired and liabilities assumed are amortized over the contractual lives of the related assets and liabilities. The core deposit intangible of $587,000 is amortized over 4 years using the straight-line method. A pre-tax bargain purchase gain totaling $3,284,359 resulted from the fair value of assets acquired exceeding liabilities assumed. The bargain purchase gain has been included as a component of noninterest income in the consolidated statements of earnings.

The fair value of the related indemnification asset was measured separately using the estimated cash flows for acquired loans and foreclosed real estate and the 80% loss share reimbursement rate included in the Loss Share Agreement with the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipts of such reimbursements.

Notes to Consolidated Financial Statements

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at April 30, 2010, the date of acquisition of Champion Bank:

Assets		
Cash and cash equivalents	$	79,893,307
Securities		11,369,389
Loans, net		71,618,957
Foreclosed real estate, net		5,064,771
Core deposit intangible		587,000
FDIC indemnification asset		24,065,017
Other assets		691,255
Total assets	$	193,289,696
Liabilities		
Deposits	$	158,441,051
Borrowings		30,881,328
Other liabilities		145,958
FDIC true-up liability		537,000
Total liabilities		190,005,337
Net assets acquired	$	3,284,359
Champion Bank's net assets acquired before fair valuation adjustments	$	15,098,386
Adjustments to reflect assets acquired and liabilities assumed at fair value:		
Loans, net		(28,458,044)
Foreclosed real estate, net		(5,143,000)
FDIC indemnification asset		24,065,017
Core deposit intangible		587,000
Borrowings		(2,328,000)
FDIC true-up liability		(537,000)
Bargain purchase gain	$	3,284,359

Following is a summary of the FDIC indemnification asset at the acquisition date based upon the present value of the estimated cash flows covered by the FDIC loss sharing agreement:

	Loans	Foreclosed Assets	Total
Covered assets	$ 100,077,001	$ 10,207,771	$ 110,284,772
Fair value adjustment	(1,540,216)	-	(1,540,216)
Estimated fair value	(71,618,957)	(5,064,771)	(76,683,728)
Anticipated realized loss	26,917,828	5,143,000	32,060,828
Loss share recovery	80%	80%	80%
Estimated loss share	21,534,262	4,114,400	25,648,662
Accretable discount	(1,437,054)	(146,591)	(1,583,645)
FDIC indemnification asset	$ 20,097,208	$ 3,967,809	$ 24,065,017

Following is a summary of activity in the FDIC indemnification asset for the year ended September 30, 2010:

	2010
Balance, beginning of year	$ -
At acquisition date	24,065,017
Additions resulting from charge-offs or impairments	-
Payments received from the FDIC	(2,395,840)
Write-downs resulting from loans sold or pay-offs	(115,839)
Accretion	368,350
Balance, end of year	$ 21,921,688

In accordance with FASB ASC 805, the proforma requirement was considered, however, due to the lack of information it was deemed impractical to provide the information required as the Company was unable to substantiate any of the significant assumptions of management prior to the acquisition.

Acquisition-related expenses, consisting primarily of appraiser costs, included in noninterest expense in the consolidated statements of earnings amounted to approximately $187,000 for the year ended September 30, 2010.

On November 7, 2008, the Company acquired KLT Bancshares, Inc., the parent company of Farley State Bank. Shareholders of Farley State Bank received total merger consideration of $4.5 million, consisting of entirely cash. The Company incurred acquisition costs of approximately $251,000. Fair value adjustments on the assets acquired and liabilities assumed are depreciated or amortized as applicable, over the estimated useful lives of the related assets and liabilities. The core deposit intangible of $1.1 million is amortized over 10.2 years using the double declining balance method. The Company recorded fair value accounting adjustments of $422,000, net of income taxes of $247,000 and core deposit intangibles of $665,000, net of income taxes of $391,000. Based upon Farley State Bank's stockholders' equity of $2.5 million, goodwill amounted to approximately $1.2 million at November 7, 2008. The excess purchase price has been allocated to goodwill and identifiable intangible assets. As a result of the acquisition, the Bank operates two additional full-service offices and expand its market area.

The following table summarizes the assets acquired and liabilities assumed at November 7, 2008, the date of acquisition:

Cash and due from banks	$	1,353,137
Federal funds sold		2,234,000
Securities available for sale		9,658,286
Federal Home Loan Bank stock		68,300
Loans, net		20,743,173
Premises and equipment, net		2,775,127
Accrued interest receivable		210,863
Goodwill		1,191,603
Core deposit intangible		1,056,000
Other assets		389,946
Total assets acquired		39,680,435
Deposits		33,964,121
Accrued interest payable		215,834
Advances from borrowers for taxes and insurance		69,896
Other liabilities		40,860
Deferred tax liability		638,468
Total liabilities assumed		34,929,179
Purchase price, including acquisition costs	$	4,751,256

The consolidated statements of earnings for the year ended September 30, 2009 include the results of KLT Bancshares, Inc. from November 8, 2008 through September 30, 2009.

The following pro forma information, including the effects of the purchase accounting adjustments, summarizes the results of operations for the year ended September 30, 2009 as though the acquisition had been completed as of the beginning of the year.

	Year Ended September 30, 2009
Total interest income	$ 20,165,648
Total interest expense	(6,682,118)
Net interest income	13,483,530
Provision for loan losses	(1,992,840)
Total noninterest income	2,265,315
Total noninterest expense	(11,800,603)
Earnings before income taxes	1,955,402
Income taxes	(584,158)
Net earnings	$ 1,371,244
Pro forma basic and diluted earnings per share	$ 0.37

The pro forma results of operations do not purport to be indicative of the results that would actually have been obtained had the acquisition occurred on the date indicated or which may be obtained in the future.

(4) Securities

Securities are summarized as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale - debt securities:				
State and municipal obligations	$ 8,123,433	$ 283,607	$ (714,035)	$ 7,693,005
Agency mortgage-backed securities	4,586,247	111,782	-	4,698,029
	12,709,680	395,389	(714,035)	12,391,034
Available for sale - equity securities	266,728	-	(2,408)	264,320
	$ 12,976,408	$ 395,389	$ (716,443)	$ 12,655,354
Weighted-average rate	4.43 %			

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale - debt securities:				
Federal agency obligations	$ 9,950,308	$ 600,055	$ -	$ 10,550,363
State and municipal obligations	9,765,909	348,672	(199,957)	9,914,624
Agency mortgage-backed securities	8,822,806	134,812	(808)	8,956,810
	28,539,023	1,083,539	(200,765)	29,421,797
Available for sale - equity securities	271,990	27,199	-	299,189
	$ 28,811,013	$ 1,110,738	$ (200,765)	$ 29,720,986
Weighted-average rate	4.62 %			

During 2009, the Company sold a portion of one equity security, recognizing a loss of $72,440, which is included in gain on sale of securities available for sale. In addition, the Company determined that an other-than–temporary impairment loss was required on the remaining investment in accordance with FASB ASC 320-10, “Investments – Debt and Equity Securities.” The Company’s assessment considered the duration and severity of the unrealized losses, the financial condition and near term prospects of the issuer, the ability to recover its initial cost basis within a reasonable period of time and adverse changes to expected cash flows.

Based on these factors, the Company recorded an other-than-temporary impairment loss on the equity security of $113,126. At September 30, 2010, the carrying value of the equity security was $264,320.

Weighted-average rates are based on the coupon rate at the balance sheet dates. Actual yields are expected to be lower and are affected by prepayments and related premium amortization. At September 30, 2010 and 2009, mortgage-backed securities included adjustable-rate mortgage loans of $2,790,031 and $3,775,929, respectively. Mortgage-backed securities pledged to secure certain deposits were $4,381,036 at September 30, 2010.

Securities having a continuous unrealized loss position for less than twelve months or twelve months or longer are as follows:

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2010	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Available for sale - debt securities:						
State and municipal obligations	$ 261,060	$ (13,740)	$ 2,498,918	$ (700,295)	$ 2,759,978	$ (714,035)
Available for sale - equity securities	264,320	(2,408)	-	-	264,320	(2,408)
	$ 525,380	$ (16,148)	$ 2,498,918	$ (700,295)	$ 3,024,298	$ (716,443)
September 30, 2009						
Available for sale- debt securities:						
State and municipal obligations	$ -	$ -	$ 3,117,032	$ (199,957)	$ 3,117,032	$ (199,957)
Agency MBSs	-	-	874,259	(808)	874,259	(808)
	$ -	$ -	$ 3,991,291	$ (200,765)	$ 3,991,291	$ (200,765)

State and Municipal Obligations (5 issues). One state and municipal obligation with a carrying value of $2.1 million had an unrealized loss of $688,000 at September 30, 2010. The Company continuously monitors this security which is collateralized by tax increment financing ("TIF") revenues generated by commercial real estate. The Company has concluded that there is no impairment as of September 30, 2010. Although the TIF district has not generated sufficient cash flows from normal assessments to meet debt service requirements, it may impose special assessments to meet debt service requirements and did so in 2010. In addition, the TIF district has other cash reserves available for debt service.

Management of the Company does not intend to sell the securities with unrealized loss positions and it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost basis, which may be upon maturity. Three state and municipal obligations amounting to $436,000 had a credit rating of A or better. Two state and municipal obligations of $2.3 million were not rated.

Maturities of debt securities at September 30, 2010 are summarized as follows:

	Available for Sale	
	Amortized Cost	Market Value
Due within one year	$ 829,078	$ 835,108
Due after one through five years	1,252,566	1,297,311
Due after five through ten years	1,565,439	1,668,133
Due after ten years	4,476,350	3,892,453
	8,123,433	7,693,005
Agency mortgage-backed securities	4,586,247	4,698,029
	$ 12,709,680	$ 12,391,034

At September 30, 2010, securities with a carrying value of approximately $3,327,199 are callable at the discretion of the issuer prior to the maturity date. Securities in the amount of $4,204,604 were pledged to secure certain deposits at September 30, 2010.

Gross proceeds, gross realized gains and gross realized losses from sales of available for sale securities were $19,232,571, $604,874 and $21,481, respectively for the year ended September 30, 2010. Gross proceeds, gross realized gains and gross realized losses from sales of available for sale securities were $11,283,720, $255,163 and $149,250, respectively, for the year ended September 30, 2009.

(5) Loans Receivable, Net

Non-covered loans receivable, net are summarized as follows:

	2010	2009
Real estate loans:		
Single-family, 1-4 units	$ 49,752,006	$ 54,600,743
Multi-family, 5 or more units	28,392,231	29,195,176
Construction	52,774,418	69,173,527
Commercial	120,961,928	122,627,930
Commercial business loans	23,420,590	22,471,956
Consumer loans	14,083,619	15,022,844
	289,384,792	313,092,176
Allowance for losses	(4,091,963)	(3,536,837)
Loans in process	(4,514,715)	(7,032,403)
Unearned discounts	-	(13,068)
Deferred loan fees, net	(214,170)	(263,771)
	$ 280,563,944	$ 302,246,097

Covered loans receivable, net are summarized as follows:

	2010	2009
Real estate loans:		
Single-family, 1-4 units	$ 10,178,762	$ -
Multi-family, 5 or more units	8,929,988	-
Construction	6,796,814	-
Commercial	26,558,885	-
Commercial business loans	4,957,936	-
Consumer loans	8,954,472	-
	66,376,857	-
Loans in process	(2,464,289)	-
Accretable discount on covered loans	(434,007)	-
Credit quality discount on covered loans	(4,245,205)	-
	$ 59,233,356	$ -

The weighted-average rate on total loans receivable, net at September 30, 2010 and 2009 was 6.17% and 6.33%, respectively.

Notes to Consolidated Financial Statements

Adjustable-rate loans included in the loan portfolio amounted to $121,470,573 and $106,670,009 at September 30, 2010 and 2009, respectively. Loans serviced for the benefits of others amounted to $19,018,120 and $14,050,318 at September 30, 2010 and 2009, respectively.

Real estate construction loans are secured by the following:

	2010	2009
Single-family, spec	$ 7,472,965	$ 9,055,528
Single-family, custom built	104,150	6,764,889
Multi-family, 5 or more units	4,231,000	2,610,000
Development	6,803,599	13,620,379
Commercial	40,959,518	37,122,731
	$ 59,571,232	$ 69,173,527

Following is a summary of activity in the allowance for loan losses on non-covered loans:

	2010	2009
Balance, beginning of year	$ 3,536,837	$ 2,633,298
Loan charge-offs	(2,187,227)	(935,777)
Loan recoveries	100,605	18,275
Allowance acquired by acquisition	-	252,129
Provision charged to expense	2,641,748	1,568,912
Balance, end of year	$ 4,091,963	$ 3,536,837

The outstanding balance and related carrying amount of ASC 310-30 loans ("impaired covered loans") and loans not subject to the specific criteria of ASC 310-30, but accounted for under the guidance of ASC 310-30 ("other covered loans") at September 30, 2010 and the acquisition date are as follows:

	September 30, 2010			April 30, 2010 (acquisition date)		
	Impaired Covered Loans	Other Covered Loans	Total	Impaired Covered Loans	Other Covered Loans	Total
Outstanding balance	$ 10,474,633	73,659,848	$ 84,134,481	$ 20,253,042	$ 79,823,959	$ 100,077,001
Carrying amount	$ 5,643,320	$ 56,054,325	$ 61,697,645	$ 9,460,386	$ 62,158,571	$ 71,618,957

There was no provision for loan losses or activity in the allowance for loan losses established after the acquisition date through September 30, 2010 for impaired covered loans or other covered loans.

The timing of disposition or sale on impaired loans, is not readily determinable. Accordingly, the Bank does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield and has ceased recognition of accretion on such loans. These loans amounted to $5,643,320 and $9,460,386 at September 30, 2010 and the acquisition date, respectively.

At the acquisition date, the outstanding principal balance and the estimated contractual cash flows not expected to be collected for all other covered loans was $79,823,959 and $17,665,388, respectively.

Following is a summary of the activity in accretion of discount for loans acquired for the year ended September 30, 2010:

	2010
Balance, beginning of year	$ -
Additions	1,540,216
Accretion	(29,000)
Disposals of loans	(575,591)
Reclassifications from (to) nonaccretable difference	(501,618)
Balance, end of year	$ 434,007

A summary of nonperforming loans, excluding covered loans, follows:

	2010	2009
Nonaccrual loans	$ 15,528,393	$ 67,123
Accruing loans past due 90 days or more	-	-
Impaired loans	144,599	2,648,065
Total nonperforming loans	$ 15,672,992	$ 2,715,188
Allowance for losses on nonperforming loans	$ 925,300	$ 315,858
Nonperforming loans with no allowance for loan losses	$ 268,656	$ -
Average balance of nonperforming loans	$ 4,197,208	$ 2,856,948
Interest income that would have been recognized	$ 114,605	$ 18,861
Interest income recognized	$ 86,529	$ 3,166

A summary of nonperforming covered loans follows:

		2010		2009
Nonaccrual covered loans	$	4,354,492	$	-
Accruing covered loans past due 90 days or more		-		-
Impaired covered loans		1,288,828		-
Total nonperforming covered loans	$	5,643,320	$	-

The Bank originates single-family loans with high loan to value ratios exceeding 90 percent. At September 30, 2010 and 2009 these loans amounted to $3,099,599 and $4,914,038, respectively.

Following is a summary of loans to directors, executive officers and associates of such persons in excess of $60,000 in the aggregate for the year ended September 30, 2010:

Balance, beginning of year	$	85,031
Additions		-
Repayments		(50,157)
Balance, end of year	$	34,874

These loans were made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons.

(6) Premises and Equipment, Net

Premises and equipment, net are summarized as follows:

		2010		2009
Land	$	3,644,951	$	3,717,466
Office buildings		10,357,027		9,507,994
Furniture and equipment		4,598,747		4,211,194
		18,600,725		17,436,654
Less accumulated depreciation		5,458,422		4,734,027
	$	13,142,303	$	12,702,627

Depreciation expense for 2010 and 2009 was $719,640 and $684,417, respectively.

During 2010, the Bank recognized an impairment charge of $161,143 related to the expected sale of one of its branch offices. The impairment charge was determined based on estimated fair value of the property, less estimated selling costs.

The Bank leases the land for one branch office located in Kansas City. The lease expires in November 2021. The Bank has four successive options to extend the lease term for five years each and a fifth option for a three year period.

The Bank leases the land for one branch office located in Creve Coeur, Missouri. The lease expires in July 2032. The Bank has five successive options to extend the lease term for five years each.

Total land lease expense for 2010 and 2009 was $159,039 and $91,622, respectively.

Future minimum lease payments are summarized as follows:

October 1, 2010 to September 30, 2011	$	254,185
October 1, 2011 to September 30, 2012		276,784
October 1, 2012 to September 30, 2013		276,784
October 1, 2013 to September 30, 2014		276,784
October 1, 2014 to September 30, 2015		276,784
After September 30, 2015		4,001,557
	$	5,362,878

7) Foreclosed Real Estate, Net

Foreclosed real estate, net is summarized as follows:

		2010		2009
Non-covered foreclosed real estate	$	4,610,636	$	2,822,423
Covered foreclosed real estate		7,771,980		-
Allowance for losses		-		-
	$	12,382,616	$	2,822,423

At September 30, 2010, foreclosed real estate consists primarily of commercial real estate and single-family, non-owner occupied dwellings.

Following is a summary of activity in allowance for losses:

		2010		2009
Balance, beginning of year	$	-	$	-
Gain on sale		138,004		23,932
Charge-offs		(515,678)		(1,365,113)
Provision charged to expense		377,674		1,341,181
Balance, end of year	$	-	$	-

(8) Goodwill and Core Deposit Intangibles, Net

Goodwill was recognized in connection with the acquisition of KLT Bancshares, Inc., the parent company of Farley State Bank, in November 2008. Under FASB ASC 350, “Intangibles - Goodwill and Other,” goodwill is tested for impairment annually or more frequently, if necessary, utilizing a two-step methodology.

The first step requires that the Company compare the fair value of a reporting unit with its carrying amount. If the fair value of the reporting unit exceeds the carrying value, goodwill is not impaired. If the carrying value exceeds the fair value of the reporting unit, the second step is performed to determine the amount of impairment, if any. The second step compares the implied value of the reporting unit's goodwill with the carrying amount of such goodwill. The implied value of goodwill is the excess of the fair value of the reporting unit over the aggregate fair values of the individual assets, liabilities and identifiable assets as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit.

Management determined that the Bank is the reporting unit for purposes of evaluating goodwill. Under the first step, the fair value of the reporting unit was determined using recent transactions from comparable banks from an independent third party, including transaction value to total assets, tangible book value, last twelve months net earnings and a control premium.

After weighting each valuation approach, the fair value of the Bank was determined to exceed the carrying amount. As a result, goodwill was not impaired at either September 30, 2010 or 2009.

The gross carrying value and accumulated amortization of the core deposit intangibles related to the acquisitions of Champion Bank and Farley State Bank is presented below:

	September 30, 2010	September 30, 2009
Core deposit intangible	$ 1,643,000	$ 1,056,000
Accumulated amortization	(748,083)	(190,667)
	$ 894,917	$ 865,333

The core deposit intangible is tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

Amortization expense on core deposit intangibles for the years ended September 30, 2010 and 2009 was $557,416 and $190,667, respectively.

Estimated amortization expense on core deposit intangibles for the next five years is as follows:

Year ended September 30, 2011	$ 251,000
Year ended September 30, 2012	169,000
Year ended September 30, 2013	111,000
Year ended September 30, 2014	76,000
Year ended September 30, 2015	68,000

(9) Deposits

Deposits are summarized as follows:

Description and interest rate	2010	2009
Non-interest bearing NOW accounts	$ 28,166,568	$ 21,494,001
NOW accounts, 0.25% and 0.50%, respectively	41,833,165	27,491,640
Statement accounts, .25% and .30%, respectively	10,913,779	9,745,346
Money market accounts, .97% and 1.48%, respectively	106,071,197	80,679,977
Total transaction accounts	186,984,709	139,410,964
Certificates:		
0.40 - 1.49%	94,729,515	46,021,988
1.50 - 1.99%	14,275,514	38,241,719
2.00 - 2.99%	24,261,715	17,342,663
3.00 - 3.99%	14,765,278	28,548,107
4.00 - 4.99%	2,117,774	5,469,010
5.00 - 5.99%	1,035,159	1,168,823
Total certificates, 1.63% and 2.00%, respectively	151,184,955	136,792,310
Total deposits, 1.06% and 1.49%, respectively	$ 338,169,664	$ 276,203,274

At September 30, 2010 and 2009, deposits included brokered certificates of $10,909,000 and $28,710,000, respectively. Approximately $5.0 million of brokered deposits mature within one year, $710,000 in 2012, $2.0 million in 2014 and $3.0 million in 2015.

Certificate maturities are summarized as follows:

	2010	2009
First year	$ 96,812,442	$ 108,355,733
Second year	25,864,974	10,356,733
Third year	16,025,115	9,137,490
Fourth year	5,456,103	3,897,198
Fifth year	7,026,321	5,045,156
	$ 151,184,955	$ 136,792,310

Transaction accounts and certificates in denominations of $100,000 or more amounted to $94,092,520 and $57,288,260 at September 30, 2010, respectively, and $61,335,542 and $63,560,324 at September 30, 2009, respectively. Generally, deposits in excess of $250,000 are not Federally insured. Approximately $30.8 million of certificates of $100,000 or more mature within one year.

Interest on deposits is summarized as follows:

	2010	2009
NOW accounts	$ 191,893	$ 190,936
Passbook accounts	32,037	28,365
Money market accounts	1,007,642	1,498,587
Certificates	2,526,481	3,391,602
	$ 3,758,053	$ 5,109,490

Deposits from directors, executive officers and other affiliates were not material to total deposits at September 30, 2010 and 2009.

(10) Advances from FHLB

Advances from FHLB are summarized as follows:

Final Maturity Date	Average Interest Rate at September 30, 2010	2010	2009
Within one year	3.30%	$ 11,000,000	$ 34,866,000
After one through three years	2.30%	27,174,854	26,274,862
After three through five years	3.18%	8,000,000	8,000,000
After five years	2.38%	22,053,315	-
		$ 68,228,169	$ 69,140,862
Weighted-average rate		2.59 %	2.21 %

Principal maturities at September 30, 2010 are summarized as follows:

October 1, 2010 to September 30, 2011	$ 11,100,008
October 1, 2011 to September 30, 2012	20,074,846
October 1, 2012 to September 30, 2013	7,000,000
October 1, 2013 to September 30, 2014	5,000,000
October 1, 2014 to September 30, 2015	3,000,000
After September 30, 2015	22,053,315
	$ 68,228,169

In the FDIC assisted acquisition with Champion Bank, the Bank assumed advances from the FHLB with a fair value of $30,881,328, including a premium of $2,328,000. Such premium is being recognized in interest expense using a method which approximates the interest method over the remaining term of such advances.

At September 30, 2010, advances from FHLB are secured by FHLB stock and loans amounting to $108,023,949. The Bank had unused credit available under the FHLB advance program of $41.4 million at September 30, 2010.

At September 30, 2010, BankLiberty had an unused line of credit with another bank of $5.0 million.

(11) Securities Sold Under Agreement to Repurchase

Securities sold under agreement to repurchase, which are classified as borrowings, are reflected at the amount of cash received in connection with transaction, plus interest credited. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. The securities sold under agreement to repurchase are under the Bank's control. These agreements to repurchase are summarized as follows:

Maturity Date	Rate at September 30, 2010	2010	2009
June 26, 2012	3.34%	$ 377,450	$ 365,052
Open line	0.71%	517,651	181,967
Total, 1.82% and 3.12%		$ 895,101	$ 547,019
Market value of securities		$ 1,614,775	$ 1,524,646
Average balance of borrowings		$ 873,800	$ 658,994
Maximum balance at any month end		$ 1,233,387	$ 855,407

(12) Income Taxes

The Company and Bank file consolidated income tax returns. The Bank is permitted to make additions to the tax bad debt reserve using the experience method.

The components of the net deferred tax asset are summarized as follows:

	2010	2009
Deferred tax liabilities:		
FHLB stock dividends	$ (140,625)	$ (140,625)
Unrealized gain on securities available for sale	-	(326,626)
Purchase accounting adjustments-Farley State Bank	(472,645)	(548,205)
Purchase accounting adjustments-Champion Bank	(1,163,903)	-
	(1,777,173)	(1,015,456)
Deferred tax assets:		
Accrued income and expense and deferred loan fees	191,428	216,819
Unrealized loss on securities available for sale	119,492	-
Allowance for losses on loans	1,437,174	1,229,002
Book over tax depreciation	131,452	141,412
Book over tax benefit plan expense	211,117	176,009
Other	121,396	203,574
Total deferred tax assets	2,212,059	1,966,816
Net deferred tax asset	$ 434,886	$ 951,360

The provisions of FASB ASC 942-740-35, "Financial Services – Depository and Lending – Income Taxes," require the Bank to establish a deferred tax liability for the effect of the tax bad debt reserves over the amounts at September 30, 1988. The Bank's tax bad debt reserves were $3,588,000 at September 30, 1988. The estimated deferred tax liability on such amount is approximately $1,220,000, which has not been recorded in the accompanying financial statements. If these tax bad debt reserves are used for other than loan losses, the amount used will be subject to Federal income taxes at the then prevailing corporate rate.

Income taxes are summarized as follows:

	2010	2009
Current:		
Federal	$ 1,230,000	$ 838,000
State	176,000	116,000
	1,406,000	954,000
Deferred:		
Federal	838,000	(238,000)
State	123,000	(45,000)
	961,000	(283,000)
	$ 2,367,000	$ 671,000

The provision for income taxes differs from the Federal statutory corporate tax rate as follows:

	Percentage of Earnings Before Income Taxes	
	2010	2009
Federal statutory income tax rate	34.0%	34.0%
Increases (decreases) in tax rate:		
Tax exempt income	(2.0)	(6.6)
Change in cash surrender value of BOLI	(2.1)	(6.1)
Nondeductible capital loss	-	2.6
Nondeductible stock option expense	0.2	0.5
State taxes, net of Federal tax benefit	2.6	1.9
Average fair value versus cost of ESOP shares	0.1	0.1
Other, net	0.5	1.0
Tax rate	33.3%	27.4%

(13) Employee Benefits

Defined Contribution Pension Plan (401(k) Plan)

The Bank maintains a defined contribution pension plan, which covers substantially all employees. Participants can contribute from 2% to 15% of their salary of which the Bank will match 50% of the employee contribution, up to a maximum of 5% of the employee's salary. Participants are fully vested after five years of service. Pension plan expense was $77,860 and $71,944 for 2010 and 2009, respectively.

Directors' Benefit Plans

The Bank has adopted a retirement plan for directors elected before 1994. The plan provides that each non-employee director (participant) shall receive upon retirement a benefit in equal annual installments over a ten-year period. The annual benefit will be based upon the product of the participant's vesting percentage and $8,000 for currently retired directors and surviving spouses. For three directors covered under the plan, the annual benefit was amended and is $15,000 per year for ten years.

Retirement plan expense was $21,396 and $18,439 for 2010 and 2009, respectively. The accumulated retirement plan benefit obligation was $202,857 and $201,897 at September 30, 2010 and 2009, respectively.

The Bank also provides postretirement medical benefits to directors, elected before 1994, and their spouses. The liability for such benefits is unfunded. The accumulated postretirement benefit obligation, which represents the present value of the estimated future benefits payable to plan participants attributed to service rendered to date, will be recognized on a delayed basis as a component of net periodic cost for postretirement medical benefits.

Postretirement medical benefits for three directors and their spouses have been amended from the current plan of lifetime health insurance coverage to benefits of $500 per month for each of the directors and spouses, not to exceed twenty years.

Postretirement medical benefits plan expense was $2,904 in 2010. In 2009, the plan expense was a credit of $288. The accumulated postretirement medical benefit obligation was $188,765 and $210,891 at September 30, 2010 and 2009, respectively.

Employee Stock Ownership Plan (ESOP)

The Bank has established an ESOP for the benefit of participating employees. Effective September 30, 2010, the ESOP was amended such that no new employees would be eligible to participate in the ESOP and all current employees participating in the ESOP became 100% vested in their accounts. The ESOP loan from the Company was paid in full on September 30, 2010. Prior to this amendment and payoff, participating employees were employees who were normally scheduled to work at least twenty hours a week. After participants complete plan eligibility requirements they became 20% vested after one year of service, and 20% for each additional year of service until benefits were 100% vested after 5 years. The Bank made annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated ESOP shares used to repay the ESOP loan. Dividends on allocated ESOP shares were paid to participants of the ESOP and charged to retained earnings. The ESOP shares were pledged as collateral on the ESOP loan. After repayment of the ESOP loan, all shares were released from collateral and will be allocated to participating employees, based on the proportion of loan repaid and compensation of the participants. The Plan permits offsetting forfeitures against employer contributions. Benefits become payable upon a participant's retirement, death, disability or separation from service.

Additional ESOP disclosures are summarized as follows:

	2010	2009
Shares allocated at year end	199,338	173,524
Shares released for allocation at year end	36,134	25,350
Unreleased shares at year end	-	36,134
ESOP expense for the year	$ 292,259	$ 189,039
Fair value of unreleased ESOP shares at year end	$ -	$ 271,366

Stock Options

As authorized by the 2003 Incentive Equity and Deferred Compensation Plan (the “2003 Plan”), the Board of Directors granted 78,760 options to non-employee directors and 96,260 to certain officers and employees during fiscal year 2004. The Plan authorizes the award of up to 258,063 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. Options expire ten years from the date of the grant. 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 three years and three months and options granted to certain other officers and employees are vested over a five-year period. On January 27, 2005 the Board of Directors granted an additional 38,504 options 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 officers and employees are vested over a five-year period. On November 23, 2005 the Board of Directors granted an additional 42,440 options to directors and officers. Options granted to the board, CEO, and certain officers, were vested over a ten-month period.

As authorized by the Liberty Bancorp, Inc. 2007 Equity Incentive Plan (the “2007 Plan”), the Board of Directors granted 25,150 options to non-employee directors and 65,500 options to certain officers and employees on February 27, 2007. On April 1, 2009, 5000 options were granted to one employee. The 2007 Plan authorizes the award of up to 100,691 options to purchase 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. Options expire ten years from the date of the grant. All 95,650 options granted are vested over a five-year period.

The Company has estimated the fair value of awards granted for the year ended September 30, 2009 under its stock option plan utilizing the Black-Scholes pricing model to be $1.82. There were no awards granted during the year ended September 30, 2010. The assumptions used in the Black-Scholes model were as follows:

	2010	2009
Expected dividend yield	-	1.30%
Risk-free interest rate	-	2.77%
Expected life of options	-	7.50 years
Expected volatility	-	23.00%

The expected dividend yield is based on the current quarterly dividend in effect at the time of the grant. The risk-free interest rate is based on the 7-year U.S. Treasury Constant. The expected life of options is based on the average of the option life of ten years and vesting period of five years. The expected volatility is based on historical volatility of the Company’s stock.

Stock option compensation expense is as follows:

	2010	2009
Pretax	$41,859	$46,595
After tax	38,034	43,550
Basic and diluted earnings per share	$0.01	$0.01

At September 30, 2010, the total unrecognized compensation expense related to nonvested stock options was $62,132 and is expected to be recognized over the weighted-average period of 1.62 years.

Stock options, granted, exercised or forfeited are as follows:

	Number of Shares		Weighted-Average Exercise Price	Weighted-Average Contractual Term in Years		Aggregate Intrinsic Value
Outstanding at September 30, 2008	321,488	$	8.40	6.72	$	396,443
Granted	5,000		6.78	-		-
Exercised	-		-	-		-
Expired	-		-	-		-
Forfeited	-		-	-		-
Outstanding at September 30, 2009	326,488	$	8.37	5.78		105,303
Granted	-		-	-		-
Exercised	-		-	-		-
Expired	-		-	-		-
Forfeited	-		-	-		-
Outstanding at September 30, 2010	326,488	$	8.37	4.78	$	419,410
Exercisable at September 30, 2010	286,828	$	8.03	4.52	$	410,330
Vested and expected to vest at September 30, 2010	286,828	$	8.03	4.52	$	410,330

A summary of the total value of options exercised, the amount of cash received from the exercise of stock options and the fair value of shares vested is as follows for the years indicated:

		2010		2009
Intrinsic value of options exercised	$	-	$	-
Cash received from the exercise of options		-		-
Fair value of shares vested		167,467		189,033

Shares exercisable and weighted-average exercise prices were 286,828 and $8.03 at September 30, 2010, respectively and 264,321 and $7.82 at September 30, 2009, respectively.

Restricted Stock Awards

During fiscal year 2004, as authorized by the 2003 Plan, two directors each received a restricted stock award of 6,125 shares, which vests over three years. On February 27, 2007, as authorized by the 2007 Plan, the Board of Directors granted 31,400 restricted stock awards to non-employee directors and 78,000 awards to certain officers and employees. The 2007 Plan authorizes the award of up to 125,649 shares of common stock, subject to restrictions, to be issued to directors, officers and employees of the Bank. Subsequently, 125,649 shares were repurchased by a trust to fund the restricted stock awards. All awards are vested over a five-year period.

A summary of the Company's restricted stock compensation expense is as follows:

	2010	2009
Pretax	$ 253,368	$ 249,977
After tax	$ 164,689	$ 162,485

At September 30, 2010, the total unrecognized expense was $373,062 and is expected to be recognized over the next 1.5 years.

A summary of the Company's nonvested stock award activity for 2010 is as follows:

	Number of Nonvested Shares	Weighted-Average Grant Date Fair Value
Nonvested at October 1, 2009	70,640	$ 11.03
Granted	-	-
Vested	(22,880)	11.07
Forfeited	-	-
Nonvested at September 30, 2010	47,760	$ 10.89

(14) Stockholders' Equity and Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines, the Bank must meet specific guidelines, which involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to judgments by the regulators about components, risk-weightings and other factors. At September 30, 2010, the Bank met all capital adequacy requirements.

The Bank is also subject to the regulatory framework for prompt corrective action. At September 30, 2010 and 2009, the most recent notification from the regulatory agencies categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the dates of the aforementioned notifications which management believes have changed the Bank's category.

Notes to Consolidated Financial Statements

The Bank's actual and required capital amounts and ratios at September 30, 2010 are as follows:

	Actual		Minimum for Capital Adequacy		Required to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Stockholders' equity	$ 45,723					
Computer software costs	(172)					
Goodwill and core deposit intangibles	(2,087)					
Unrealized gain, net – benefit plans	(44)					
Unrealized loss on securities AFS, net	201					
Tangible capital	$ 43,621	9.5%	$ 6,869	1.5%		
General valuation allowance	2,978					
Total capital to risk-weighted assets	$ 46,599	14.3%	$ 25,982	8.0%	$ 32,478	10.0%
Tier 1 capital to risk-weighted assets	$ 43,621	13.4%	$ 12,991	4.0%	$ 19,487	6.0%
Tier 1 capital to total assets	$ 43,621	9.5%	$ 18,316	4.0%	$ 22,895	5.0%

The Bank's actual and required capital amounts and ratios at September 30, 2009 are as follows:

	Actual		Minimum for Capital Adequacy		Required to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Stockholders' equity	$ 41,027					
Computer software costs	(191)					
Goodwill and core deposit intangible	(2,057)					
Unrealized gain, net – benefit plans	(57)					
Unrealized gain on securities AFS, net	(556)					
Tangible capital	$ 38,166	9.8%	$ 5,835	1.5%		
General valuation allowance	3,519					
Total capital to risk-weighted assets	$ 41,685	12.7%	$ 26,302	8.0%	$ 32,877	10.0%
Tier 1 capital to risk-weighted assets	$ 38,166	11.6%	$ 13,151	4.0%	$ 19,726	6.0%
Tier 1 capital to total assets	$ 38,166	9.8%	$ 15,559	4.0%	$ 19,449	5.0%

An OTS regulation restricts the Bank's ability to make capital distributions, including paying dividends. The regulations do not permit cash dividend payments if the Bank's capital would be reduced below the amount of the minimum capital requirements or the liquidation account. A liquidation account was established at the time of Conversion in an amount equal to the capital of the Bank as of the date of the latest balance sheet contained in the final prospectus dated May 15, 2006. The OTS may impose other restrictions.

During the years ended September 30, 2010 and 2009, the Company paid cash dividends of $355,069 and $366,120, respectively.

On May 21, 2009 a fourth stock repurchase program was approved to acquire up to 365,537, or 10%, of the Company's common stock. Repurchases will be conducted through open market purchases or privately negotiated transactions, from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company. The Company has repurchased 90,607 shares under this program.

(15) Off-Balance Sheet Risk, Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans and unused lines of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount and related accrued interest receivable of those instruments. The Company minimizes this risk by evaluating each borrower's creditworthiness on a case-by-case basis. Collateral held by the Company generally consists of a first or second mortgage on the borrower's property. The amount of collateral obtained is based upon an appraisal of the property.

Commitments to originate loans are legally binding agreements to lend to the Company's customers. Letters of credit are unconditional commitments issued by the Company 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 September 30, 2010:

		Fixed-Rate		Adjustable-Rate
Off-balance sheet financial instruments:				
Commitments to originate loans	$	18,628,455	$	3,299,072
Commitments for unused lines of credit	$	245,888	$	15,577,352
Commitments for undisbursed loans	$	1,509,061	$	5,469,941
Commitments for letters of credit	$	1,719,628	$	-

Interest rates on these fixed-rate loans ranged from 3.00% to 8.50%.

At September 30, 2010, there was no known pending litigation or other claims that management believes will be material to the Company's financial position.

(16) Fair Value Measurements and Financial Instruments

Fair Value Measurements

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the assumptions that market participants would use in pricing the assets or liabilities (the "inputs") into three broad levels.

The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets and liabilities and the lowest priority (Level 3) to unobservable inputs in which little, if any, market activity exists, requiring entities to develop their own assumptions and data.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in market areas that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Valuation Techniques

Available for sale securities are carried at fair value utilizing Level 1, Level 2 and Level 3 inputs. For equity securities, the Company obtains market quotes for its investment in common stock.

For Level 2 debt securities, the Company obtains fair value measurements from an independent pricing service. Level 2 debt securities include Federal agency obligations, state and municipal obligations, mortgage-backed securities and collateralized mortgage obligations. The fair value measurements consider observable data that may include dealer quotes, live trading levels, trade execution data, cash flows, market consensus prepayment speeds, market spreads, credit information and the U.S. Treasury yield curve. The fair value of Level 3 debt securities are determined by the appraisal of the underlying collateral, discounted cash flow analysis, or other internally developed estimates that incorporate market-based assumptions.

Impaired loans are carried at fair value utilizing Level 3 inputs, consisting of appraisals of underlying collateral or discounted cash flow analysis.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate, utilizing Level 2 inputs as determined based on expected proceeds from outstanding commitments from investors.

Notes to Consolidated Financial Statements

Assets Measured at Fair Value on a Recurring Basis

The following table summarizes financial assets measured at fair value on a recurring basis at September 30, 2010 and 2009, segregated by the level of the inputs within the hierarchy used to measure fair value:

	Fair Value Measurements at September 30, 2010			
Assets	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total Fair Value**
Available for sale securities:				
Debt securities:				
State and municipal obligations	$ -	$ 5,369,445	$ 2,323,560	$ 7,693,005
Mortgage-backed securities	-	4,698,029	-	4,698,029
Equity securities	264,320	-	-	264,320
	$ 264,320	$ 10,067,474	$ 2,323,560	$ 12,655,354

	Fair Value Measurements at September 30, 2009			
Assets	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total Fair Value**
Available for sale securities:				
Debt securities:				
Federal agency obligations	$ -	$ 10,550,363	$ -	$ 10,550,363
State and municipal obligations	-	6,933,639	2,980,985	9,914,624
Mortgage-backed securities	-	8,956,810	-	8,956,810
Equity securities	299,189	-	-	299,189
	$ 299,189	$ 26,440,812	$ 2,980,985	$ 29,720,986

Level 3 Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs:

State and Municipal Obligations	**2010**	**2009**
Balance at beginning of year	$ 2,980,985	$ 3,205,908
Total unrealized losses included in other comprehensive earnings	(556,541)	(203,462)
Purchases	5,109	4,512
Principal Collections	(105,993)	(25,973)
Balance at end of year	$ 2,323,560	$ 2,980,985

Assets Measured at Fair Value on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at September 30, 2010 and 2009 include nonperforming non-covered loans of $15,672,992 and $2,715,188, respectively, which are collateral dependent utilizing Level 3 inputs and loans held for sale at September 30, 2010 and 2009 of $5,664,906 and $459,270, respectively, utilizing Level 2 inputs.

Following is a summary of activity in the allowance for losses on nonperforming loans, excluding covered loans:

	2010	2009
Balance at beginning of year	$ 315,858	$ 437,523
Charge-offs	(1,343,953)	(646,957)
Recoveries	62,032	-
Provision charged to expense	1,891,363	525,292
Balance at end of year	$ 925,300	$ 315,858

Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments under FASB ASC 825-10 "Financial Instruments," are summarized as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-trading instruments and nonderivatives:				
Cash and cash equivalents	$ 33,606,980	$ 33,606,980	$ 26,512,327	$ 26,512,327
Securities available for sale	7,957,325	7,957,325	20,764,176	20,764,176
Stock in FHLB	3,500,100	3,500,100	3,910,100	3,910,100
Mortgage-backed securities - available for sale	4,698,029	4,698,029	8,956,810	8,956,810
Loans receivable, net	339,797,300	352,739,442	302,246,097	314,679,761
Loans held for sale	5,664,906	5,664,906	459,270	459,270
Accrued interest receivable	1,399,747	1,399,747	1,557,970	1,557,970
Deposits	338,169,664	341,686,629	276,203,274	278,379,493
Accrued interest on deposits	217,632	217,632	307,911	307,911
Advances from FHLBDM	68,228,169	70,313,598	69,140,862	69,784,806
Securities sold under agreement to repurchase	$ 895,101	$ 903,425	$ 547,019	$ 542,643

The following methods and assumptions were used in estimating the fair values of financial instruments, exclusive of securities which are discussed under "Valuation Techniques."

Cash and cash equivalents are valued at their carrying amounts due to the relatively short period to maturity of the instruments.

The carrying amounts of accrued interest receivable and payable approximate fair value. Stock in FHLB is valued at cost, which represents redemption value and approximates fair value.

Fair values are computed for each loan category using market spreads to treasury securities for similar existing loans in the portfolio and management's estimates of prepayments.

Deposits with no defined maturities, such as NOW accounts, passbook accounts and money market deposit accounts, are valued at the amount payable on demand at the reporting date. The fair value of certificates of deposit, advances from FHLB and securities sold under agreement to repurchase is computed at fixed spreads to treasury securities with similar maturities.

Off-balance sheet assets include commitments to extend credit and unused lines of credit for which fair values were estimated based on interest rates and fees currently charged to enter into similar transactions and commitments to sell loans for which fair values were estimated based on current secondary market prices for commitments with similar terms. As a result of the short-term nature of the outstanding commitments, the fair values of fees on such commitments are considered immaterial to the Company's financial condition.

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