



LIBERTY BANCORP, INC.

2017
ANNUAL REPORT

Dear Fellow Shareholder,

The Company produced net income of \$4.2 million in 2017, a decrease from the \$5.0 million earned in 2016. The company's wholly owned subsidiary, BankLiberty, had a strong performance during 2017 but our results were negatively impacted by a significant adjustment to the carrying value of deferred tax assets resulting from the enacted changes in tax laws.

While lower corporate income tax rates will be favorable for us in the future, the impact of the adjustment on certain deferred tax assets resulted in one-time tax expenses of \$1.66 million. This additional expense resulted in a reported net loss for the fourth quarter and lowered full year earnings.

As you will see on the following page of Selected Consolidated Financial Data, the Company remains in superb financial condition with strong capital and earnings, minimal non-performing loans, and excellent core deposit funding. In November 2017, the Board of Directors was pleased to increase the per share dividend 23%, to \$0.0675 per quarter, effective with the December 2017 payment. Additionally, due to the strong earnings and capital levels, the Board of Directors approved a special dividend of \$0.50 per share which was paid to shareholders on September 29, 2017.

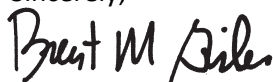
On January 11, 2018, we announced an agreement to acquire Lawson Financial Corp., the holding company for Lawson Bank. As a result of this agreement Lawson Bank will be merged into our wholly owned subsidiary, BankLiberty. Lawson Bank is headquartered in Lawson, Missouri, with branches in Kansas City, Excelsior Springs, and Gladstone, Missouri. Lawson Bank had total assets of \$119 million as of December 31, 2017. We are excited to be able to provide Lawson Bank's customers with the friendly community bank service they expect along with cutting-edge services that make business and life easier. This move fits very well with our core growth and service throughout the Kansas City Northland.

We will continue to employ strategies to boost organic growth and pursue prudent acquisitions as we feel the Company needs to grow to keep pace with ever increasing cybersecurity, healthcare, labor, and regulatory compliance costs. 2017 was a positive year for the company and 2018 should also be very positive due to the largely improved economic environment and benefits of the lower corporate tax rate; however, we remain cautious to the optimism that comes with each business cycle.

As I say every year, I feel very privileged to work alongside our board, management team, and employees who do an outstanding job every day of serving our clients and community while dealing with numerous complex business and regulatory issues. Our team is outstanding and the reason for our success.

On behalf of the Board of Directors and our entire team, thank you for your continued confidence and support.

Sincerely,



Brent M. Giles

President and Chief Executive Officer

**Non-audited
Selected Consolidated Financial Data**

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
(dollars in thousands, except per share amounts)					
Selected Financial Data					
Total assets	\$ 457,952	\$ 438,761	\$ 435,865	\$ 457,285	\$ 510,110
Securities and mortgage-backed securities	\$ 14,706	\$ 19,935	\$ 23,650	\$ 24,360	\$ 15,770
Loans receivable, net	\$ 371,738	\$ 353,259	\$ 344,357	\$ 308,167	\$ 328,721
Deposits	\$ 363,215	\$ 374,852	\$ 358,608	\$ 385,607	\$ 413,338
Total borrowings	\$ 40,519	\$ 11,466	\$ 27,801	\$ 2,722	\$ 29,599
Stockholders' equity (1)	\$ 53,270	\$ 51,147	\$ 48,596	\$ 67,490	\$ 65,415

Operating Results

Total interest income	\$ 18,392	\$ 18,724	\$ 18,120	\$ 20,205	\$ 20,839
Total interest expense	921	1,013	907	1,558	2,290
Net interest income	17,471	17,711	17,213	18,647	18,549
Provision (credit) for loan losses	(526)	270	(401)	305	1,575
Net interest income after provision (credit) for loan losses	17,997	17,441	17,614	18,342	16,974
Total noninterest income	3,635	2,462	3,563	2,116	1,753
Total noninterest expense	13,632	12,377	14,504	14,413	14,110
Income before income taxes	8,000	7,526	6,673	6,045	4,617
Income taxes	3,819	2,523	2,220	1,941	1,550
Net Income	\$ 4,181	\$ 5,003	\$ 4,453	\$ 4,104	\$ 3,067

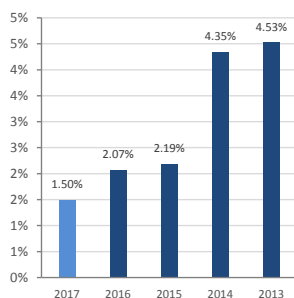
Other Financial Data

Return on assets (2)	0.92 %	1.15 %	1.00 %	0.86 %	0.69 %
Return on stockholders' equity (3)	7.96 %	9.97 %	7.28 %	6.19 %	4.74 %
Stockholders' equity to total assets ratio (4)	11.62 %	11.53 %	13.81 %	13.87 %	14.57 %
Non-performing non-covered assets as a % of total assets	1.50 %	2.07 %	2.19 %	4.35 %	4.53 %
Allowance for loan losses as a % of non-covered loans	1.35 %	1.51 %	1.56 %	1.95 %	2.00 %
Efficiency ratio	64.59 %	61.35 %	69.81 %	69.42 %	69.50 %
Dividend payout ratio (5)	58.66 %	9.33 %	9.58 %	9.18 %	10.53 %
Cash dividends on common stock (actual dollar amount)	\$ 2,452,555	\$ 466,797	\$ 426,547	\$ 376,634	\$ 323,075
Cash dividends on preferred stock (actual dollar amount)	\$ -	\$ -	\$ 188,189	\$ 161,690	\$ 221,112
Common shares outstanding	2,475,309	2,398,903	2,504,004	2,873,640	2,937,543

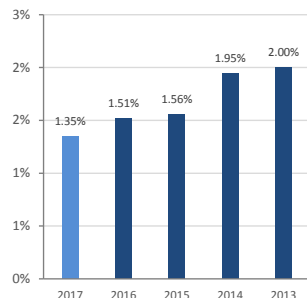
Per Share Data

Basic earnings per common share	\$ 1.64	\$ 2.01	\$ 1.55	\$ 1.31	\$ 0.93
Diluted earnings per common share	\$ 1.62	\$ 1.99	\$ 1.53	\$ 1.29	\$ 0.92
Tangible common equity per share (6)	\$ 20.31	\$ 20.09	\$ 18.12	\$ 16.67	\$ 15.67
Cash dividends per share (paid to common shareholders)	\$ 0.980	\$ 0.190	\$ 0.158	\$ 0.128	\$ 0.105

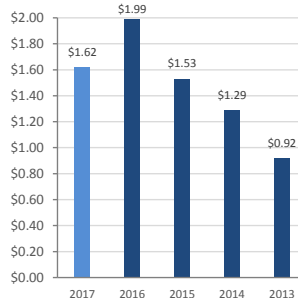
Non-performing non-covered assets as a % of total assets



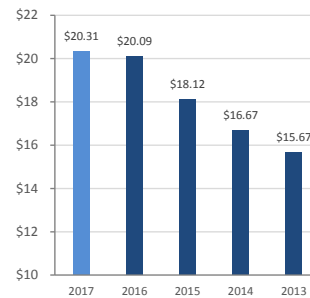
Allowance for loan losses as a % of non-covered loans



Diluted earnings per common share



Tangible common equity per share



(1) Includes the issuance of \$16.2 million in preferred stock pursuant to the Treasury's Small Business Lending Fund program. All shares were redeemed in 2015.

(2) Net earnings divided by average assets.

(3) Net earnings divided by average stockholders' equity.

(4) Average stockholders' equity divided by average total assets.

(5) Represents dividends paid to holders of common stock as a percentage of net earnings.

(6) Represents consolidated tangible common equity per outstanding common share at end of year.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Liberty Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Committee, Board of Directors
and Stockholders
Liberty Bancorp, Inc.
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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 its subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
March 28, 2018

Liberty Bancorp, Inc.
Consolidated Balance Sheets
December 31, 2017 and 2016

Assets	2017	2016
Cash and due from banks	\$ 20,504,564	\$ 10,816,288
Federal funds sold	13,000	1,162,000
Total cash and cash equivalents	20,517,564	11,978,288
Interest-bearing time deposits due from depository institutions	3,998,000	4,997,376
Available-for-sale securities, at market value (amortized cost of \$7,783,528 and \$8,274,819 at December 31, 2017 and 2016, respectively)	7,833,677	8,264,926
Held-to-maturity securities	2,338,185	2,698,788
Mortgage-backed securities ("MBS") - available for sale, at market value (amortized cost of \$4,534,024 and \$9,232,247 at December 31, 2017 and 2016, respectively)	4,534,629	8,971,489
Stock in Federal Home Loan Bank of Des Moines ("FHLB") and Federal Reserve Bank	3,154,550	2,172,150
Loans receivable, net of allowance for loan losses of \$5,088,304 and \$5,432,625 at December 31, 2017 and 2016, respectively	371,738,102	353,259,265
Premises and equipment, net of accumulated depreciation of \$7,772,506 and \$7,110,485 at December 31, 2017 and 2016, respectively	13,627,985	14,042,690
Bank-owned life insurance ("BOLI")	15,848,396	15,388,148
Foreclosed assets held for sale, net	5,931,240	8,024,608
Interest receivable	1,318,454	1,291,067
Goodwill	2,631,562	2,631,562
Core deposit intangibles, net	319,997	480,709
Deferred income taxes	2,270,304	4,102,806
Other assets	1,889,010	456,712
Total assets	<u>\$ 457,951,655</u>	<u>\$ 438,760,584</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 363,214,592	\$ 374,852,316
Advances from FHLB	34,400,000	8,400,000
Securities sold under agreements to repurchase	6,118,656	3,066,411
Other liabilities	948,396	1,294,391
Total liabilities	<u>404,681,644</u>	<u>387,613,118</u>
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; 5,279,699 shares issued and 2,475,309 outstanding at December 31, 2017, and 5,090,664 shares issued and 2,398,903 outstanding at December 31, 2016	52,797	50,907
Treasury stock at cost, 2,742,790 and 2,663,761 shares at December 31, 2017 and 2016, respectively	(32,812,104)	(31,266,518)
Additional paid-in capital	37,944,839	36,206,660
Accumulated other comprehensive income (loss), net	40,095	(167,804)
Retained earnings	48,044,384	46,324,221
Total stockholders' equity	<u>53,270,011</u>	<u>51,147,466</u>
Total liabilities and stockholders' equity	<u>\$ 457,951,655</u>	<u>\$ 438,760,584</u>

Liberty Bancorp, Inc.
Consolidated Statements of Income
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Interest income:		
Loans receivable	\$ 17,515,659	\$ 17,849,208
Mortgage-backed securities	204,550	246,017
Securities - taxable	207,755	200,807
Securities - non-taxable	272,281	295,279
Other interest-earning assets	191,926	132,514
Total interest income	<u>18,392,171</u>	<u>18,723,825</u>
Interest expense:		
Deposits	788,139	863,594
Securities sold under agreement to repurchase	5,128	4,816
Advances from FHLB	127,556	105,491
Note payable	-	39,394
Total interest expense	<u>920,823</u>	<u>1,013,295</u>
Net interest income	17,471,348	17,710,530
Provision (credit) for loan losses	<u>(526,000)</u>	<u>270,000</u>
Net interest income after provision (credit) for loan losses	<u>17,997,348</u>	<u>17,440,530</u>
Noninterest income:		
Loan service charges	47,594	68,742
Change in cash surrender value of BOLI	460,248	457,762
Deposit account service charges	1,961,689	1,899,268
Other	1,165,481	36,367
Total noninterest income	<u>3,635,012</u>	<u>2,462,139</u>
Noninterest expense:		
Compensation and benefits	7,431,812	6,900,351
Occupancy	1,203,705	1,181,940
Equipment and data processing	1,575,101	1,483,110
Losses on sales of securities and MBS available for sale	164,311	-
Foreclosed assets, net	52,825	(9,712)
FDIC premiums	147,947	206,724
Professional and regulatory services	1,180,653	503,939
Advertising	387,474	337,479
Correspondent banking charges	126,530	148,883
Supplies	134,216	163,735
Amortization of core deposit intangibles	160,712	160,712
Other	1,067,571	1,299,538
Total noninterest expense	<u>13,632,857</u>	<u>12,376,699</u>
Income before income taxes	<u>7,999,503</u>	<u>7,525,970</u>
Income taxes:		
Current	2,107,790	2,465,871
Deferred	46,548	57,129
Provision for income taxes related to enacted change in tax law	1,664,327	-
Total income taxes	<u>3,818,665</u>	<u>2,523,000</u>
Net Income	<u>\$ 4,180,838</u>	<u>\$ 5,002,970</u>
Basic earnings per share	<u>\$ 1.64</u>	<u>\$ 2.01</u>
Diluted earnings per share	<u>\$ 1.62</u>	<u>\$ 1.99</u>

Liberty Bancorp, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

	2017		2016
Net Income	\$ 4,180,838	\$	5,002,970
Other Comprehensive Gain (Loss)			
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of \$114,628 and \$(77,131), for 2017 and 2016, respectively	301,652		(125,847)
Less reclassification adjustment for realized losses included in net income, net of taxes of \$62,438 and \$0, for 2017 and 2016, respectively	101,873		-
Other comprehensive gain (loss)	199,779		(125,847)
Comprehensive Income	\$ 4,380,617	\$	4,877,123

Liberty Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2017 and 2016

	Common Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total
Balance at January 1, 2016	\$ 50,681	(29,006,437)	35,806,052	41,788,048	(41,957)	48,596,387
Net income	-	-	-	5,002,970	-	5,002,970
Other comprehensive loss	-	-	-	-	(125,847)	(125,847)
Dividends on common stock, \$.19 per share	-	-	-	(466,797)	-	(466,797)
Shares issued under stock-based incentive plan, 22,559 shares	226	-	148,171	-	-	148,397
Purchase of stock (131,660 shares)	-	(2,260,081)	-	-	-	(2,260,081)
Amortization of unearned compensation expense	-	-	252,437	-	-	252,437
Balance at December 31, 2016	\$ 50,907	(31,266,518)	36,206,660	46,324,221	(167,804)	51,147,466
Net income	-	-	-	4,180,838	-	4,180,838
Other comprehensive gain	-	-	-	-	199,779	199,779
Dividends on common stock, \$.98 per share	-	-	-	(2,452,555)	-	(2,452,555)
Shares issued under stock-based incentive plan, 189,035 shares	1,890	-	1,372,048	-	-	1,373,938
Purchase of stock (79,029 shares)	-	(1,545,586)	-	-	-	(1,545,586)
Amortization of unearned compensation expense	-	-	366,131	-	-	366,131
AOCI reclass	-	-	-	(8,120)	8,120	-
Balance at December 31, 2017	\$ 52,797	(32,812,104)	37,944,839	48,044,384	40,095	53,270,011

Liberty Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities:		
Net income	\$ 4,180,838	\$ 5,002,970
Items not requiring (providing) cash		
Depreciation and amortization	694,643	720,463
Provision (credit) for loan losses	(526,000)	270,000
Amortization of core deposit intangibles	160,712	160,712
Accretion of discount on loans acquired	(10,302)	(10,302)
Incentive plan expense	366,131	222,338
Accretion of discounts on investments, net	(43,374)	(19,851)
Accretion of discounts on loans	(922,375)	(1,401,658)
Accretion of deferred loan fees, net	(245,955)	(364,305)
Deferred income taxes	1,710,875	57,129
Loans held for sale - originated	-	270,446
Loans held for sale - proceeds from sale	-	380,119
(Gain) loss on foreclosed assets, net	111,352	(35,050)
Net gains on sales of premises and equipment	(6,493)	(2,308)
Net realized losses on available for sale securities	164,311	-
Net gains on sales of loans	-	(10,820)
Increase in cash surrender value of BOLI	(460,248)	(457,762)
Changes in		
Interest receivable	(27,387)	(46,335)
Other assets	(1,358,298)	(91,718)
Interest payable and other liabilities	(269,470)	203,470
Net cash provided by operating activities	3,518,960	4,847,538
Investing Activities		
Purchases of available for sale securities	-	(250,376)
Proceeds from sales, maturities and paydowns of securities	5,429,181	3,782,272
Proceeds from maturities of interest bearing time deposits	999,376	498,624
Net change in loans	(16,774,205)	(7,566,580)
Purchases of premises and equipment	(273,445)	(311,262)
Proceeds from sales of premises and equipment	-	13,602
Purchases of Federal Home Loan and Federal Reserve Bank stock	(3,728,400)	(1,852,400)
Redemptions of Federal Home Loan and Federal Reserve Bank stock	2,672,000	2,257,200
Proceeds from the sales of foreclosed assets	1,982,016	312,222
Net cash used in investing activities	(9,693,477)	(3,116,698)

Liberty Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Financing activities:		
Net (decrease) increase in deposits	\$ (11,637,724)	\$ 16,243,844
Proceeds from Federal Home Loan Bank advances	112,300,000	59,943,000
Repayments of Federal Home Loan Bank advances	(86,300,000)	(69,543,000)
Proceeds from note payable	-	1,085,000
Repayments of note payable	-	(2,435,000)
Proceeds of securities sold under agreement to repurchase	99,637,368	87,840,135
Repayments of securities sold under agreement to repurchase	(96,585,123)	(93,225,179)
Proceeds from stock options exercised	1,373,938	148,397
Repurchase of common stock	(1,545,586)	(2,229,982)
Dividends paid on common stock	(2,452,555)	(466,797)
Net (decrease) increase in advances from borrowers for taxes and insurance	(76,525)	231,804
Net cash provided by (used in) financing activities	14,713,793	(2,407,778)
Net increase (decrease) in cash and cash equivalents	8,539,276	(676,938)
Cash and cash equivalents, beginning of year	11,978,288	12,655,226
Cash and cash equivalents, end of year	\$ 20,517,564	\$ 11,978,288
Supplemental Cash Flows Information		
Interest paid on deposits	\$ 784,794	\$ 863,725
Interest paid on advances from FHLB	\$ 127,632	\$ 105,491
Interest paid on securities sold under agreement to repurchase	\$ 5,089	\$ 4,800
Income taxes paid	\$ 2,674,000	\$ 2,219,000
Real estate acquired in settlement of loans	\$ -	\$ 170,424

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Liberty Bancorp, Inc. (the “Company”) is a Missouri corporation and holding company whose principal activity is the ownership and management of its wholly owned subsidiary, BankLiberty (the “Bank”). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in the Kansas City metropolitan area. The Company and the Bank are subject to competition from other financial institutions. The Company and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets and fair values of investment securities available for sale and financial instruments.

Cash Equivalents

The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of demand deposits due from banks and federal funds sold.

At December 31, 2017, the Company’s cash accounts exceeded federally insured limits by approximately \$14,832,000.

Interest-bearing Time Deposits Due from Depository Institutions

Interest-bearing time deposits due from depository institutions mature within seven years and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from income and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade dates and are determined using the specific identification method. Interest on securities is accrued as earned.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in income and the remaining portion in other comprehensive income (loss).

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

Interest on 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.

Allowance for Loan Losses

Allowances for losses are available to absorb losses incurred on loans receivable 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 credited to the allowance when received. The allowance consists of specific and general components. The specific component relates to loans 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 cover uncertainties that affect the Bank’s estimate of probable losses for each loan type. The adjustments to historical loss experience are based on evaluations 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.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Valuation allowances are established for impaired loans for the differences between the loan amounts and the fair values of collateral less estimated selling costs. The Bank considers a loan to be impaired when, based on current information and events, it is probable 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.

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 the Company 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.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	5-40 years
Furniture and equipment	3-10 years

Federal Home Loan and Federal Reserve Bank Stock

Federal Home Loan and Federal Reserve Bank stock are required investments for institutions that are members of the Federal Home Loan and Federal Reserve Bank systems. The required investments in the common stock are based on predetermined formulas, carried at cost and evaluated for impairment.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance

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sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Income and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Core Deposit Intangibles

Intangible assets with finite lives are being amortized on both the straight-line and an accelerated basis over periods ranging from 1 to 9 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Stock Options

At December 31, 2017 and 2016, the Company recognizes the fair value (calculated value) of stock-based awards to employees as compensation cost over the requisite service period. The share-based employee compensation plan is described more fully in Note 16.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or

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refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over income. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2013.

The Company, when applicable, recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Earnings Per Share

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. FASB ASC 260-10, "Earnings Per Share," requires 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.

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Treasury stock shares are not deemed outstanding for earnings per share calculations. Basic and diluted earnings per common share for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Basic earnings per share:		
Net income	\$ 4,180,838	\$ 5,002,970
Net income available to common stockholders	4,180,838	5,002,970
Less dividends paid:		
Common stock	2,392,033	461,477
Participating securities	60,522	5,320
Undistributed earnings	\$ 1,728,283	\$ 4,536,173
Weighted-average basic securities outstanding	2,483,872	2,455,338
Add: Weighted-average participating securities outstanding	61,600	28,000
Total weighted-average basic shares and participating securities outstanding	2,545,472	2,483,338
Distributed earnings per share	\$ 0.96	\$ 0.19
Undistributed earnings per share	\$ 0.68	\$ 1.82
Net earnings per share	\$ 1.64	\$ 2.01
Diluted earnings per share:		
Undistributed earnings	\$ 1,728,283	\$ 4,536,173
Total weighted-average basic shares and participating securities outstanding	2,545,472	2,483,338
Add: Dilutive stock options	32,500	34,853
Total weighted-average diluted shares and participating securities outstanding	2,577,972	2,518,191
Distributed earnings per share	\$ 0.95	\$ 0.19
Undistributed earnings per share	\$ 0.67	\$ 1.80
Net earnings per share	\$ 1.62	\$ 1.99
Anti-dilutive option shares	-	1,410

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Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities.

Transfers between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statements presentation. These reclassifications had no effect on net income.

Subsequent Event

Subsequent events have been evaluated through March 28, 2018, which is the date the consolidated financial statements were issued.

The Company has entered into an agreement to purchase all the stock of Lawson Financial Corp. As a result of this agreement, Lawson Bank will be merged into the Bank. Lawson Bank is headquartered in Lawson, Missouri with branches in Kansas City, Excelsior Springs and Gladstone, Missouri. Lawson Bank had total assets of \$119.1 million at December 31, 2017. Total investments, net loans and deposits were approximately \$33.0 million, \$56.2 million and \$106.6 million at December 31, 2017, respectively. The transaction is expected to close in the second quarter of 2018, subject to approval by bank regulatory authorities as well as the satisfaction of other customary closing conditions.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank or an applicable agent. The reserve required at December 31, 2017, was \$4,745,000.

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Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale Securities				
December 31, 2017				
State and municipal obligations	\$ 7,783,528	\$ 53,724	\$ (3,575)	\$ 7,833,677
Mortgage-backed, Government-sponsored enterprises (GSEs) residential	4,534,024	24,381	(23,776)	4,534,629
	<u>\$ 12,317,552</u>	<u>\$ 78,105</u>	<u>\$ (27,351)</u>	<u>\$ 12,368,306</u>
Weighted-average rate	<u>3.70 %</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2016				
State and municipal obligations	\$ 8,274,819	\$ 32,209	\$ (42,102)	\$ 8,264,926
Mortgage-backed, Government-sponsored enterprises (GSEs) residential	9,232,247	21,315	(282,073)	8,971,489
	<u>\$ 17,507,066</u>	<u>\$ 53,524</u>	<u>\$ (324,175)</u>	<u>\$ 17,236,415</u>
Weighted-average rate	<u>3.42 %</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Held-to-maturity Securities				
December 31, 2017				
Collateralized debt obligation	\$ 2,338,185	\$ -	\$ -	\$ 2,338,185
Weighted-average rate	<u>4.50 %</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Held-to-maturity Securities				
December 31, 2016				
Collateralized debt obligation	\$ 2,698,788	\$ -	\$ -	\$ 2,698,788
Weighted-average rate	<u>4.50 %</u>			

Weighted-average rates are based on the coupon rates at the balance sheet dates. Actual yields are expected to be lower and are affected by prepayments and related premium amortization.

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The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 108,601	\$ 106,550	\$ -	\$ -
One to five years	2,556,751	2,578,936	2,338,185	2,338,185
Five to ten years	2,768,176	2,791,517	-	-
After ten years	2,350,000	2,356,674	-	-
	<u>7,783,528</u>	<u>7,833,677</u>	<u>2,338,185</u>	<u>2,338,185</u>
Mortgage-backed GSEs	4,534,024	4,534,629	-	-
	<u>\$ 12,317,552</u>	<u>\$ 12,368,306</u>	<u>\$ 2,338,185</u>	<u>\$ 2,338,185</u>

The fair value of securities pledged as collateral, to secure public deposits and for other purposes, was \$6,818,292 at December 31, 2017, and \$208,575 at December 31, 2016. FHLB letters of credit used in lieu of securities to secure public deposits and for other purposes was approximately \$14.8 million at December 31, 2017 and \$19.0 million at December 31, 2016.

Gross losses of \$164,311 and \$0 resulting from sales of available-for-sale securities were realized for the years ended December 31, 2017 and December 31, 2016, respectively. Proceeds from mortgage-backed GSEs sold at a loss during 2017 were \$3,275,672. There were no gross gains resulting from sales of available-for-sale securities for the years ended December 31, 2017 and 2016, respectively. Included in investment securities is a REMIC security with an amortized cost of \$759,735 and \$829,419 and an approximate fair value of \$759,429 and \$827,381 at December 31, 2017 and 2016, respectively, for which the fair value is more volatile as interest rates fluctuate than more conventional fixed or variable rate securities.

Certain investments in debt (and marketable equity) securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2017 and 2016, was \$3,580,682 and \$10,894,438, which is approximately 29% and 63%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Management believes the declines in fair value for these securities are temporary.

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The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2017						
State and municipal obligations	\$ 358,711	\$ (173)	\$ 582,155	\$ (3,402)	\$ 940,866	\$ (3,575)
Mortgage-backed GSE residential	-	-	2,639,816	(23,776)	2,639,816	(23,776)
	<u>\$ 358,711</u>	<u>\$ (173)</u>	<u>\$ 3,221,971</u>	<u>\$ (27,178)</u>	<u>\$ 3,580,682</u>	<u>\$ (27,351)</u>
	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2016						
State and municipal obligations	\$ 3,102,607	\$ (36,449)	\$ 118,331	\$ (5,653)	\$ 3,220,938	\$ (42,102)
Mortgage-backed GSE residential	3,015,856	(2,699)	4,657,644	(279,374)	7,673,500	(282,073)
	<u>\$ 6,118,463</u>	<u>\$ (39,148)</u>	<u>\$ 4,775,975</u>	<u>\$ (285,027)</u>	<u>\$ 10,894,438</u>	<u>\$ (324,175)</u>

Mortgage-backed GSE Residential

The unrealized losses on the Company's investment in mortgage-backed GSE residential securities were caused by changes in interest rates and illiquidity. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and illiquidity, not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2017.

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Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	<u>2017</u>	<u>2016</u>
Residential real estate	\$ 84,641,860	\$ 94,526,979
Construction and land development	63,017,172	58,219,517
Commercial real estate	191,757,155	162,653,971
Commercial	55,402,651	64,802,270
Consumer and other	7,128,511	8,276,800
	<u>401,947,349</u>	<u>388,479,537</u>
Allowance for losses	(5,088,304)	(5,432,625)
Loans in process	(24,227,719)	(28,172,735)
Accretable discount on purchased credit impaired loans	(24,039)	(34,342)
Credit quality discount on purchased credit impaired loans	(515,082)	(1,278,866)
Deferred loan fees, net	(354,103)	(301,704)
	<u>\$ 371,738,102</u>	<u>\$ 353,259,265</u>

Construction and land development loans at December 31, 2017 and 2016 are secured by the following:

	<u>2017</u>	<u>2016</u>
Single-family, spec	\$ 20,218,009	\$ 21,728,545
Single-family, custom built	1,384,006	5,218,333
Multi-family, 5 or more units	7,503,910	7,888,491
Commercial	13,086,186	18,033,929
Development	20,825,061	5,350,219
	<u>\$ 63,017,172</u>	<u>\$ 58,219,517</u>

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of and for the years ended December 31, 2017 and 2016:

	2017					
	Residential Real Estate	Construction and Land Development	Commercial Real Estate	Commercial	Consumer and Other	Total
Allowance for Loan Losses						
Balance, beginning of year	\$ 1,315,684	\$ 694,323	\$ 2,354,979	\$ 949,264	\$ 118,375	\$ 5,432,625
Provision charged to expense	(138,006)	37,099	(97,765)	(405,968)	78,640	(526,000)
Losses charged off	(21,979)	-	-	-	(154,226)	(176,205)
Recoveries	32,253	7,000	30,000	267,000	21,631	357,884
Balance, end of year	<u>\$ 1,187,952</u>	<u>\$ 738,422</u>	<u>\$ 2,287,214</u>	<u>\$ 810,296</u>	<u>\$ 64,420</u>	<u>\$ 5,088,304</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,187,952</u>	<u>\$ 738,422</u>	<u>\$ 2,287,214</u>	<u>\$ 810,296</u>	<u>\$ 64,420</u>	<u>\$ 5,088,304</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans						
Ending balance	<u>\$ 84,641,860</u>	<u>\$ 63,017,172</u>	<u>\$ 191,757,155</u>	<u>\$ 55,402,651</u>	<u>\$ 7,128,511</u>	<u>\$ 401,947,349</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,250,258</u>	<u>\$ -</u>	<u>\$ 415,463</u>	<u>\$ 480,000</u>	<u>\$ 31,383</u>	<u>\$ 2,177,104</u>
Ending balance: collectively evaluated for impairment	<u>\$ 83,070,275</u>	<u>\$ 63,017,172</u>	<u>\$ 190,713,872</u>	<u>\$ 54,922,651</u>	<u>\$ 6,277,181</u>	<u>\$ 398,001,151</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ 321,327</u>	<u>\$ -</u>	<u>\$ 627,820</u>	<u>\$ -</u>	<u>\$ 819,947</u>	<u>\$ 1,769,094</u>

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	2016					
	Residential Real Estate	Construction and Land Development	Commercial Real Estate	Commercial	Consumer and Other	Total
Allowance for Loan Losses						
Balance, beginning of year	\$ 1,604,668	\$ 732,357	\$ 2,102,017	\$ 769,635	\$ 239,864	\$ 5,448,541
Provision charged to expense	(263,268)	(206,568)	191,293	641,511	(92,968)	270,000
Losses charged off	(82,817)	-	-	(611,492)	(55,734)	(750,043)
Recoveries	57,101	168,534	61,669	149,610	27,213	464,127
Balance, end of year	<u>\$ 1,315,684</u>	<u>\$ 694,323</u>	<u>\$ 2,354,979</u>	<u>\$ 949,264</u>	<u>\$ 118,375</u>	<u>\$ 5,432,625</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,315,684</u>	<u>\$ 694,323</u>	<u>\$ 2,354,979</u>	<u>\$ 949,264</u>	<u>\$ 118,375</u>	<u>\$ 5,432,625</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans						
Ending balance	<u>\$ 94,526,979</u>	<u>\$ 58,219,517</u>	<u>\$ 162,653,971</u>	<u>\$ 64,802,270</u>	<u>\$ 8,276,800</u>	<u>\$ 388,479,537</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,328,585</u>	<u>\$ 158,902</u>	<u>\$ 429,520</u>	<u>\$ 425,000</u>	<u>\$ 49,513</u>	<u>\$ 2,391,520</u>
Ending balance: collectively evaluated for impairment	<u>\$ 90,888,978</u>	<u>\$ 57,901,713</u>	<u>\$ 161,576,853</u>	<u>\$ 64,377,270</u>	<u>\$ 7,127,163</u>	<u>\$ 381,871,977</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ 2,309,416</u>	<u>\$ 158,902</u>	<u>\$ 647,598</u>	<u>\$ -</u>	<u>\$ 1,100,124</u>	<u>\$ 4,216,040</u>

Internal Risk Categories

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk rating system, the Company classifies pass loans as "Superior" and "Satisfactory" and problem and potential problem loans as "Watch," "Special Mention," "Substandard," "Doubtful" and "Loss." The Company uses the following definitions for risk ratings:

Superior – Loans in this category present very limited risk. They are characterized by loans to borrowers with unquestionable financial strength, a long history of excellent loan performance and business experience. Loans to borrowers collateralized by cash or equivalent liquidity may be included here. Loans secured, with margin, by readily marketable collateral may also be included provided the relationship meets all other characteristics of the grade. Loans secured by income producing collateral meeting the criteria of this classification will have excellent documentation, payment history, cash flow and low loan-to-value as well as current financial information.

Satisfactory – These loans are of average credit quality, are properly structured and documented and require only normal supervision. Financial data is current and document adequate revenue, cash flow and satisfactory payment history to indicate that financial condition is satisfactory. Secured loans have properly margined collateral. Repayment terms are realistic, clearly defined and based upon an identifiable source of repayment.

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Watch – These loans have characteristics of the “Satisfactory” rating, but warrant a more than normal level of supervision because of an adverse economic event that may affect the borrower’s financial condition.

- i. Adverse economic conditions within a particular industry;
- ii. Management turnover or lack of experience that may result in deterioration of financial performance; and
- iii. Generally, the Loan should be upgraded or downgraded within a year.

Special Mention – A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank’s credit position at some future date. Special mention assets are not adversely classified and do not expose the bank to sufficient risk to warrant adverse classification.

Special mention classification does not apply to a loan that has as its sole weakness credit data exceptions or collateral documentation exceptions that are not material to the timely repayment of the asset. An adverse trend in the obligor’s operations or the obligor’s highly leveraged balance sheet may warrant a Special Mention designation, provided that neither condition has deteriorated to the point that timely repayment is jeopardized.

Substandard – Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Assets classified Substandard may be characterized by one or a combination of the following weaknesses:

- i. Primary source of repayment is gone or severely impaired and the Bank may have to rely upon the secondary source;
- ii. Loss does not seem likely, but sufficient problems have arisen to cause the Bank to go to extraordinary lengths to protect its position in order to maintain a high probability of repayment;
- iii. Obligors are unable to generate enough cash flow to reduce their debts;
- iv. There is a material deterioration in collateral value (if the collateral is expected to be a primary source of repayment); or
- v. Flaws in documentation leave the Bank in a subordinated or unsecured position when the collateral is needed for the repayment of the loan; or
- vi. The asset is (or was) a loan that is nonperforming or nonearning. This includes REO and nonperforming loans and investments.

The presence of one or more of these factors does not mandate that the asset be adversely classified if the Bank determines that it is probable that the asset will be fully liquidated in a timely manner without loss of either principal or interest.

Doubtful – Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in

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full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The likelihood of a loss on an asset or portion of an asset classified Doubtful is high. The classification as Loss is not appropriate, however, because pending events are expected to materially affect the amount of loss.

Loss – Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value; but rather, there is much doubt about whether, how much or when the recovery will occur. As such, it is not practical or desirable to defer the write-off.

The following tables present the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2017 and 2016:

2017						
	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Commercial Real Estate</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
Grade						
Pass	\$ 83,391,602	\$ 62,738,924	\$ 188,379,780	\$ 54,922,651	\$ 7,119,418	\$ 396,552,375
Watch	-	278,248	2,961,912	-	-	3,240,160
Special Mention	-	-	415,463	-	-	415,463
Substandard	1,250,258	-	-	480,000	9,093	1,739,351
Doubtful	-	-	-	-	-	-
	<u>\$ 84,641,860</u>	<u>\$ 63,017,172</u>	<u>\$ 191,757,155</u>	<u>\$ 55,402,651</u>	<u>\$ 7,128,511</u>	<u>\$ 401,947,349</u>

2016						
	<u>Residential Real Estate</u>	<u>Construction and Land Development</u>	<u>Commercial Real Estate</u>	<u>Commercial</u>	<u>Consumer and Other</u>	<u>Total</u>
Grade						
Pass	\$ 92,887,965	\$ 57,903,621	\$ 162,224,451	\$ 63,837,270	\$ 8,237,432	\$ 385,090,739
Watch	300,284	156,994	-	540,000	-	997,278
Special Mention	-	-	-	-	-	-
Substandard	1,338,730	158,902	429,520	425,000	39,368	2,391,520
Doubtful	-	-	-	-	-	-
	<u>\$ 94,526,979</u>	<u>\$ 58,219,517</u>	<u>\$ 162,653,971</u>	<u>\$ 64,802,270</u>	<u>\$ 8,276,800</u>	<u>\$ 388,479,537</u>

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the past year.

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The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2017 and 2016:

		2017					Total Loans	Total Loans
		30-59 Days	60-89 Days	Greater Than	Total Past Due	Current	Receivable	>90 Days &
		Past Due	Past Due	90 Days				Accruing
Residential real estate	\$	20,054	\$ 6,793	\$ -	\$ 26,847	\$ 84,615,013	\$ 84,641,860	\$ -
Construction and land development		-	-	-	-	63,017,172	63,017,172	-
Commercial real estate		-	-	-	-	191,757,155	191,757,155	-
Commercial		-	-	-	-	55,402,651	55,402,651	-
Consumer and other		8,935	11,491	31,383	51,809	7,076,702	7,128,511	-
	\$	<u>28,989</u>	<u>\$ 18,284</u>	<u>\$ 31,383</u>	<u>\$ 78,656</u>	<u>\$ 401,868,693</u>	<u>\$ 401,947,349</u>	<u>\$ -</u>

		2016					Total Loans	Total Loans
		30-59 Days	60-89 Days	Greater Than	Total Past Due	Current	Receivable	>90 Days &
		Past Due	Past Due	90 Days				Accruing
Residential real estate	\$	45,943	\$ -	\$ 10,145	\$ 56,088	\$ 94,470,891	\$ 94,526,979	\$ -
Construction and land development		-	-	-	-	58,219,517	58,219,517	-
Commercial real estate		-	-	-	-	162,653,971	162,653,971	-
Commercial		-	-	425,000	425,000	64,377,270	64,802,270	-
Consumer and other		11,077	41,089	39,368	91,534	8,185,266	8,276,800	-
	\$	<u>57,020</u>	<u>\$ 41,089</u>	<u>\$ 474,513</u>	<u>\$ 572,622</u>	<u>\$ 387,906,915</u>	<u>\$ 388,479,537</u>	<u>\$ -</u>

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows, the loan's observable market value or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings (TDRs).

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The following tables present impaired loans for the years ended December 31, 2017 and 2016:

	2017				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance					
Residential real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Construction and land development	-	-	-	79,451	-
Commercial real estate	415,463	415,463	-	422,492	22,779
Commercial	480,000	480,000	-	452,500	33,852
Consumer and other	31,383	31,383	-	40,448	423
Total	<u>\$ 926,846</u>	<u>\$ 926,846</u>	<u>\$ -</u>	<u>\$ 994,891</u>	<u>\$ 57,054</u>

	2016				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific allowance					
Residential real estate	\$ -	\$ -	\$ -	\$ 356,268	\$ -
Construction and land development	158,902	204,526	-	157,410	13,110
Commercial real estate	429,521	429,521	-	436,145	23,635
Commercial	425,000	425,000	-	212,500	48,710
Consumer and other	49,513	49,513	-	78,934	5,813
Total	<u>\$ 1,062,936</u>	<u>\$ 1,108,560</u>	<u>\$ -</u>	<u>\$ 1,241,257</u>	<u>\$ 91,268</u>

Interest income recognized on impaired loans includes interest accrued and collected on the outstanding balances of accruing impaired loans as well as interest cash collections on non-accruing impaired loans for which the ultimate collectability is not certain.

The following table presents the Company's nonaccrual loans at December 31, 2017 and 2016. This table excludes purchased impaired loans and performing TDRs.

	<u>2017</u>	<u>2016</u>
Residential real estate	\$ -	\$ -
Construction and land development	-	-
Commercial real estate	-	-
Commercial	-	425,000
Consumer and other	31,383	49,513
Total	<u>\$ 31,383</u>	<u>\$ 474,513</u>

At December 31, 2017 and 2016, the Company had a number of loans that were modified in TDRs and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate, a permanent reduction of the recorded investment in the loan, forbearance or other actions.

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The following tables present information regarding troubled debt restructurings by the recorded balance for the years ended December 31, 2017 and 2016.

	<u>2017</u>			
	<u>Total TDRs</u>	TDRs Performing in accordance with Modified Terms	Nonaccrual	TDRs Not Performing in Accordance with Modified Terms
Commercial real estate	\$ 415,463	\$ 415,463	\$ -	\$ -
Commercial	480,000	480,000	-	-
Total	<u>\$ 895,463</u>	<u>\$ 895,463</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>2016</u>			
	<u>Total TDRs</u>	TDRs Performing in accordance with Modified Terms	Nonaccrual	TDRs Not Performing in Accordance with Modified Terms
Construction and land development	\$ 158,902	\$ 158,902	\$ -	\$ -
Commercial real estate	429,520	429,520	-	-
Total	<u>\$ 588,422</u>	<u>\$ 588,422</u>	<u>\$ -</u>	<u>\$ -</u>

Newly restructured loans by type of modification:

	<u>2017</u>				Total Modification
	Number of Loans	Interest Only	Term	Combination	
Commercial	1	\$ -	\$ 480,000	\$ -	\$ 480,000

There were no newly restructured loans for the year ended December 31, 2016.

There were not material differences between pre-modification and post modification balances for the years ended December 31, 2017 and 2016. No TDRs modified in the past 12 months subsequently defaulted.

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Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 3,667,466	\$ 3,667,466
Office buildings	13,305,587	13,286,131
Furniture and equipment	<u>4,427,438</u>	<u>4,199,578</u>
	21,400,491	21,153,175
Less accumulated depreciation	<u>7,772,506</u>	<u>7,110,485</u>
	<u>\$ 13,627,985</u>	<u>\$ 14,042,690</u>

Note 6: Core Deposit Intangibles

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2017 and 2016, were:

	<u>2017</u>	<u>2016</u>
Core deposit intangibles	\$ 2,292,000	\$ 2,292,000
Accumulated amortization	<u>(1,972,003)</u>	<u>(1,811,291)</u>
	<u>\$ 319,997</u>	<u>\$ 480,709</u>

Amortization expense for both years ended December 31, 2017 and 2016, was \$160,712. Estimated amortization expense for each of the following years is as follows:

2018	\$ 160,000
2019	\$ 93,000
2020	\$ 67,000

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Note 7: Deposits

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Non-interest bearing DDA accounts	\$ 99,549,973	\$ 101,468,305
Interest bearing DDA and NOW accounts	71,309,370	64,795,080
Statement accounts	40,144,145	36,501,890
Money market accounts	83,027,897	91,038,001
Total transaction accounts	<u>294,031,385</u>	<u>293,803,276</u>
Time deposits:		
0.00 - 0.99%	44,133,500	55,352,938
1.00 - 1.99%	24,611,611	25,390,044
2.00 - 2.99%	438,096	221,520
3.00 - 3.99%	<u>-</u>	<u>84,538</u>
Total time deposits	<u>69,183,207</u>	<u>81,049,040</u>
Total deposits	<u>\$ 363,214,592</u>	<u>\$ 374,852,316</u>

At December 31, 2017 and 2016 deposits included brokered time deposits of \$10,296,000 and \$14,296,000, respectively.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2018	\$ 49,854,878
2019	11,469,077
2020	4,942,106
2021	2,217,699
2022	<u>699,447</u>
	<u>\$ 69,183,207</u>

Transaction accounts and time deposits in denominations of \$250,000 or more amounted to \$75,369,735 and \$10,068,607 at December 31, 2017, respectively, and \$78,107,694 and \$7,956,537 at December 31, 2016, respectively. Approximately \$7.4 million of time deposits with balances exceeding \$250,000 mature within one year.

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Interest expense on deposits for the years ended December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
DDA accounts	\$ 95,111	\$ 96,770
Statement accounts	38,471	34,399
Money market accounts	130,178	134,447
Time deposits	524,379	597,978
	<u>\$ 788,139</u>	<u>\$ 863,594</u>

Note 8: Federal Home Loan Bank Advances

Final Maturity Date	Average Interest Rate at December 31, 2017	December 31, 2017	December 31, 2016
Within one year	1.59%	\$ 34,400,000	\$ 5,400,000
One to three years	0.00%	-	3,000,000
		<u>\$ 34,400,000</u>	<u>\$ 8,400,000</u>
Weighted-average rate		<u>1.59 %</u>	<u>0.99 %</u>

The Bank had unused credit available under the FHLB advance program of approximately \$108 million at December 31, 2017, which was secured by FHLB stock and loans amounting to \$157,251,856 at December 31, 2017.

Note 9: Securities Sold under Agreement to Repurchase

Securities sold under agreements to repurchase consist of overnight obligations of the Company to other parties were \$6,118,656 and \$3,066,411 at December 31, 2017 and 2016, respectively. The obligations are secured by securities. The securities sold under agreements to repurchase are under the Bank's control.

	<u>2017</u>	<u>2016</u>
Fair value of securities	\$ 6,118,656	\$ 3,066,411
Average balance	\$ 3,625,824	\$ 3,032,954
Maximum balance at any month end	\$ 6,118,656	\$ 3,238,657

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Note 10: Income Taxes

The Company files income tax returns in the U.S. federal and Missouri jurisdictions.

The provision for income taxes includes these components:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Taxes currently payable		
Federal	\$ 1,701,598	\$ 2,153,190
State	406,192	312,681
	<u>2,107,790</u>	<u>2,465,871</u>
Deferred income taxes		
Federal	43,325	52,646
State	3,223	4,483
	<u>46,548</u>	<u>57,129</u>
Adjustment of deferred tax asset for enacted changes in tax laws	<u>1,664,327</u>	<u>-</u>
Income tax expense	<u>\$ 3,818,665</u>	<u>\$ 2,523,000</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	Percentage of Income Before Income Taxes December 31, 2017	December 31, 2016
Federal statutory income tax rate	34.0%	34.0%
Increases (decreases) in tax rate:		
Tax exempt income	(1.5)	(1.8)
Change in cash surrender value of BOLI	(2.0)	(2.1)
State taxes, net of Federal tax benefit	3.4	2.8
Deferred tax asset revaluation	20.8	-
Tax rate	<u>54.7%</u>	<u>32.9%</u>

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The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Deferred tax assets:		
Accrued income and expense and deferred loan fees	\$ 168,168	\$ 227,942
Net unrealized losses on securities available for sale	-	102,847
Allowance for loan losses	1,242,951	1,921,463
Foreclosed assets for held for sale	296,188	454,546
Benefit plan expense recognition	188,582	285,837
Purchase accounting adjustments-Champion Bank	9,948	-
Purchase accounting adjustments-Patriots Bank	2,291,886	3,378,262
Other	132,282	141,794
Total deferred tax assets	<u>4,330,004</u>	<u>6,512,691</u>
Deferred tax liabilities:		
Net unrealized gains on securities available for sale	(13,196)	-
FHLB stock dividends	(535)	(1,853)
Premises and equipment	(128,824)	(114,847)
Prepaid expenses	(450,187)	(102,522)
Purchase accounting adjustments-Farley State Bank	(17,593)	(50,875)
Purchase accounting adjustments-Champion Bank	-	(68,276)
Purchase accounting adjustments-Enterprise Bank and Trust	(36,221)	(25,581)
Total deferred tax liabilities	<u>(646,556)</u>	<u>(363,954)</u>
Net deferred tax asset	<u>3,683,448</u>	<u>6,148,737</u>
Valuation allowance:		
Beginning balance	(2,045,931)	(2,045,931)
Decrease during the period	632,787	-
Ending balance	<u>(1,413,144)</u>	<u>(2,045,931)</u>
Net deferred tax asset	<u>\$ 2,270,304</u>	<u>\$ 4,102,806</u>

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, as well as other changes. As a result of enactment of the legislation, the company incurred additional one-time income tax expenses of \$1,664,327 during the 4th quarter of 2017, primarily related to the remeasurement of certain deferred tax assets and liabilities.

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Note 11: Accumulated Other Comprehensive Income (AOCI) (Loss)

The components of AOCI (loss), included in stockholders' equity, are as follows:

	<u>2017</u>	<u>2016</u>
Net unrealized gain (loss) on available-for-sale securities	\$ 50,754	\$ (270,651)
	<u>50,754</u>	<u>(270,651)</u>
Tax effect	10,659	(102,847)
Net-of-tax amount	<u>\$ 40,095</u>	<u>\$ (167,804)</u>

Note 12: Changes in AOCI (Loss) by Component

Amounts reclassified from AOCI and the affected line items in the consolidated statements of income during years ended December 31, 2017 and 2016, were as follows:

	Amounts Reclassified from AOCI		Affected Line Item in the Statements of Income
	<u>2017</u>	<u>2016</u>	
Realized gains (losses) on available-for-sale securities	\$ (164,311)	\$ -	Losses on sales of securities and MBS available for sale
	<u>62,438</u>	<u>-</u>	Deferred income taxes
Total reclassifications out of AOCI	<u>\$ (101,873)</u>	<u>\$ -</u>	Net reclassified amount

Note 13: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be

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categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier 1 capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios at December 31, 2017 and 2016 are as follows:

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2017						
Total risk-based capital (to risk-weighted assets)	\$ 51,508	11.89 %	\$ 34,664	8.0 %	\$ 43,330	10.0 %
Tier I capital (to risk-weighted assets)	\$ 46,423	10.71 %	\$ 25,998	6.0 %	\$ 34,664	8.0 %
Common equity Tier 1 capital (to risk-weighted assets)	\$ 46,423	10.71 %	\$ 19,499	4.5 %	\$ 28,165	6.5 %
Tier I capital (to adjusted total assets)	\$ 46,423	10.41 %	\$ 17,834	4.0 %	\$ 22,293	5.0 %
As of December 31, 2016						
Total risk-based capital (to risk-weighted assets)	\$ 52,141	12.69 %	\$ 32,882	8.0 %	\$ 41,103	10.0 %
Tier I capital (to risk-weighted assets)	\$ 46,998	11.43 %	\$ 24,662	6.0 %	\$ 32,882	8.0 %
Common equity Tier 1 capital (to risk-weighted assets)	\$ 46,998	11.43 %	\$ 18,496	4.5 %	\$ 26,717	6.5 %
Tier I capital (to adjusted total assets)	\$ 46,998	10.94 %	\$ 17,187	4.0 %	\$ 21,483	5.0 %

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer was 1.25% at December 31, 2017. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Federal regulations do not permit cash dividend payments if the Bank's capital would be reduced below the amount of the minimum capital requirements.

Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking

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organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Stock Repurchase Programs

On June 22, 2015, an eighth stock repurchase program was approved to acquire up to 280,000 shares 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 all approved shares under this program as of December 31, 2017.

On August 17, 2016, a ninth stock repurchase program was approved to acquire up to 200,000 shares 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 66,687 shares under this program as of December 31, 2017.

Note 14: Related Party Transactions

At December 31, 2017 and 2016, loans outstanding to directors, executive officers and associates of such persons were nominal.

Deposits from related parties held by the Company at December 31, 2017 and 2016 totaled \$4,280,515 and \$5,630,630, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

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Note 15: Employee Benefits

The Bank has a defined contribution pension plan covering substantially all employees. Employees may contribute up to 15% of their compensation with the Bank matching 50% of the employee's contribution on the first 5% of the employee's compensation. Employer contributions charged to expense for the years ended December 31, 2017 and 2016, were \$100,053 and \$91,037, 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 10-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 10 years.

Retirement plan expense was \$10,074 and \$(7,285) for the years ended December 31, 2017 and 2016, respectively. The accumulated retirement plan benefit obligation, recorded in other liabilities, was \$151,549 and \$156,475 at December 31, 2017 and 2016, 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 20 years.

Postretirement medical benefits plan expense was \$33,334 and \$18,383 for the years ended December 31, 2017 and 2016, respectively. The accumulated postretirement medical benefit obligation was \$137,347 and \$143,965 for December 31, 2017 and 2016, respectively.

Employee Stock Ownership Plan

The Bank had established an ESOP for the benefit of participating employees. No new employees have been eligible to participate in the ESOP and all current employees participating in the ESOP are 100% vested in their accounts. Benefits become payable upon a participant's retirement, death, disability or separation from service. The plan was terminated and fully distributed on May 25, 2017.

Note 16: Stock Option and Stock Award Plans

As authorized by the Liberty Bancorp, Inc. 2012 Equity Incentive Plan (the "2012 Plan"), the Board of Directors granted 48,000 options to non-employee directors and 20,000 options to certain officers on May 24, 2012. The 2012 Plan authorizes the award of up to 68,000 options to purchase shares of common stock, subject to restrictions, to be issued to directors and officers. The Plan provides for the

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grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire 10 years from the date of the grant. All 68,000 options granted vest over a five-year period.

As authorized by the Liberty Bancorp, Inc. 2012 Equity Incentive Plan (the “2012 Plan”), the Board of Directors granted 7,200 options to non-employee directors and 20,000 options to certain officers on February 18, 2015. The 2012 Plan authorizes the award of up to 27,200 options to purchase shares of common stock, subject to restrictions, to be issued to directors and officers. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire 10 years from the date of the grant. The 7,200 options granted vest over a 3-year period and the 20,000 options granted vest over a five-year period.

As authorized by the Liberty Bancorp, Inc. 2012 Equity Incentive Plan (the “2012 Plan”), the Board of Directors granted 5,500 options to certain officers on February 18, 2016. The 2012 Plan authorizes the award of up to 5,500 options to purchase shares of common stock, subject to restrictions, to be issued to directors and officers. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire 10 years from the date of the grant. The 5,500 options granted vest over a five-year period.

As authorized by the Liberty Bancorp, Inc. 2012 Equity Incentive Plan (the “2012 Plan”), the Board of Directors granted 5,000 options to certain officers on May 31, 2016. The 2012 Plan authorizes the award of up to 5,000 options to purchase shares of common stock, subject to restrictions, to be issued to directors and officers. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire 10 years from the date of the grant. The 5,000 options granted vest over a five-year period.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. There were no new options granted in the 12 months ended December 31, 2017. The Company has estimated the fair value of awards granted for the 12 months ended December 31, 2016, under its stock option plan to be \$2.57 per option. The assumptions used were as follows:

	<u>2016</u>
Expected dividend yield	1.46%
Risk-free interest rate	1.66%
Expected life of options	7.50 years
Expected volatility	16.00%

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 seven-year U.S. Treasury Constant. The expected life of options is based on the average of the option life of 10 years and vesting period of five years. The expected volatility is based on historical volatility of the Company’s stock.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Stock option compensation expense for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Pretax	\$ 14,909	\$ 40,014
After tax	\$ 13,828	\$ 31,811
Basic and diluted earnings per share	\$ 0.01	\$ 0.01

A summary of option activity under the Plan as of December 31, 2017, and changes during the year then ended, is presented below:

	<u>Number of Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term in Years</u>
Outstanding at January 1, 2016	189,620	\$ 11.19	4.60
Exercised	(13,560)	10.94	-
Awarded	10,500	16.30	-
Outstanding at December 31, 2016	186,560	\$ 11.49	4.04
Exercised	(131,035)	10.49	-
Forfeited	(1,000)	16.30	-
Awarded	-	-	-
Outstanding at December 31, 2017	54,525	\$ 13.82	6.13
Exercisable at December 31, 2017	34,925	\$ 12.70	5.56
Vested and expected to vest at December 31, 2017	34,925	\$ 12.70	5.56

The total intrinsic value of options exercised during the years ended December 31, 2017 and 2016, was \$1,484,998 and \$105,284, respectively.

As of December 31, 2017, there was \$32,017 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.52 years. The total fair value of shares vested during the years ended December 31, 2017 and 2016, was \$479,675 and \$343,833, respectively.

Cash received from option exercise under all share-based payment arrangements for the years ended December 31, 2017 and 2016, was \$1,373,938 and \$148,397, respectively.

Liberty Bancorp, Inc.
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Stock Awards

On February 18, 2015, as authorized by the 2012 Plan, the Board of Directors granted 3,600 restricted stock awards to non-employee directors and 10,000 awards to certain officers. All awards vest over a five-year period. On February 28, 2016, as authorized by the 2012 Plan, the Board of Directors granted 6,500 awards to certain officers. All awards vest over a five-year period. On May 31, 2016, as authorized by the 2012 Plan, the Board of Directors granted 2,500 restricted stock awards to certain officers. All awards vest over a five-year period. On March 9, 2017, as authorized by the 2012 Plan, the Board of Directors granted 24,000 awards to non-employee directors and 35,000 awards to certain officers. All awards vest over a five-year period.

A summary of the Company's restricted stock compensation expense for the years ended December 31, 2017 and 2016, is as follows:

	<u>2017</u>		<u>2016</u>
Pretax	\$ 351,222	\$	182,324
After tax	\$ 219,514	\$	113,953

At December 31, 2017, the total unrecognized expense was \$1,283,766 and is expected to be recognized over 3.82 years.

A summary of the status of the Company's nonvested shares as of December 31, 2017, and changes during the years ended December 31, 2017 and 2016, is presented below:

	<u>Number of Nonvested Shares</u>		<u>Weighted- Average Grant Date Fair Value</u>
Nonvested at January 1, 2016	33,750	\$	12.08
Vested	(14,500)		11.26
Forfeited	(250)		9.50
Awarded	9,000		16.30
Nonvested at December 31, 2016	28,000		13.88
Vested	(24,400)		16.79
Forfeited	(1,000)		16.30
Awarded	59,000		23.94
Nonvested at December 31, 2017	<u>61,600</u>	\$	22.00

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Note 17: Operating Leases

The Bank leases land for one branch office located in Kansas City. This land lease expires 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. Lease expense was \$100,784 and \$100,784 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments are summarized as follows:

2018	\$	100,784
2019		100,784
2020		100,784
2021		92,385
	\$	<u>394,737</u>

Note 18: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets that the company can access at the measurement date
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
State and municipal obligations	\$ 7,833,677	\$ -	\$ 5,471,214	\$ 2,362,463
Mortgage-backed GSE residential	\$ 4,534,629	\$ -	\$ 4,534,629	\$ -
December 31, 2016				
State and municipal obligations	\$ 8,264,926	\$ -	\$ 5,788,981	\$ 2,475,945
Mortgage-backed GSE residential	\$ 8,971,489	\$ -	\$ 8,971,489	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of senior management. Senior management contracts with a pricing specialist to generate fair value estimates on a quarterly basis. Senior management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	State and municipal obligations
Balance, January 1, 2016	\$ 2,502,610
Total unrealized gains and losses	
Included in other comprehensive loss	
Unrealized appreciation on available-for-sale securities	7,223
Principal collections	(33,888)
Balance, December 31, 2016	\$ 2,475,945
Total unrealized gains and losses	
Included in other comprehensive income	
Unrealized appreciation on available-for-sale securities	280
Principal collections	(113,762)
Balance, December 31, 2017	\$ 2,362,463

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Collateral-dependent impaired loans	\$ 9,093	\$ -	\$ -	\$ 9,093
Foreclosed assets	\$ 2,013,728	\$ -	\$ -	\$ 2,013,728
December 31, 2016				
Collateral-dependent impaired loans	\$ 425,000	\$ -	\$ -	\$ 425,000
Foreclosed assets	\$ 914,560	\$ -	\$ -	\$ 914,560

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Collateral-dependent Impaired Loans

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by independent personnel. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

Foreclosed Assets

Foreclosed assets are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is based on appraisals or evaluations. Foreclosed assets are classified within Level 3 of the fair value hierarchy.

Appraisals of foreclosed assets are obtained when real estate is acquired and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by independent personnel. Appraisers are selected from the list of approved appraisers maintained by management.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2017 and 2016.

	Fair Value at 12/31/17	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and municipal obligations	\$ 2,362,463	Discounted cash flow	Unrated security yield	1.9%-6.25% (6.24%)
Collateral-dependent impaired loans	\$ 9,093	Market comparable properties	Marketability discount	4.25% (4.25%)
Foreclosed assets	\$ 2,013,728	Market comparable properties	Comparability adjustments (%)	Not available
	Fair Value at 12/31/16	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and municipal obligations	\$ 2,475,945	Discounted cash flow	Unrated security yield	1.9%-6.25% (6.22%)
Collateral-dependent impaired loans	\$ 425,000	Market comparable properties	Marketability discount	6%-6% (6.00%)
Foreclosed assets	\$ 914,560	Market comparable properties	Comparability adjustments (%)	Not available

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationship between those inputs and other unobservable inputs used in recurring fair value measurements and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

State and Municipal Obligations

The significant unobservable inputs used in the fair value measurement of the Company's state and municipal obligations are premiums for unrated securities and marketability discounts. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other inputs.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016.

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Financial assets				
Cash and cash equivalents	\$ 20,517,564	\$ 20,517,564	\$ -	\$ -
Interest-bearing time deposits due from depository institutions	\$ 3,998,000	\$ -	\$ 3,998,000	\$ -
Available-for-sale securities	\$ 7,833,677	\$ -	\$ 5,471,214	\$ 2,362,463
Held-to-maturity securities	\$ 2,338,185	\$ -	\$ 2,338,185	\$ -
Mortgage-backed securities available for sale	\$ 4,534,629	\$ -	\$ 4,534,629	\$ -
Stock in FHLB and Federal Reserve Bank	\$ 3,154,550	\$ -	\$ 3,154,550	\$ -
Loans receivable, net	\$ 371,738,102	\$ -	\$ 370,357,221	\$ 9,093
Interest receivable	\$ 1,318,454	\$ -	\$ 1,318,454	\$ -
Financial liabilities				
Deposits	\$ 363,214,592	\$ -	\$ 339,882,094	\$ -
Interest payable	\$ 14,436	\$ -	\$ 14,436	\$ -
Advances from FHLB	\$ 34,400,000	\$ -	\$ 34,389,342	\$ -
Securities sold under agreements to repurchase	\$ 6,118,656	\$ -	\$ 6,118,656	\$ -
Commitments to originate loans, letters of credit and lines of credit	\$ -	\$ -	\$ -	\$ -
December 31, 2016				
Financial assets				
Cash and cash equivalents	\$ 11,978,288	\$ 11,978,288	\$ -	\$ -
Interest-bearing time deposits due from depository institutions	\$ 4,997,376	\$ -	\$ 4,997,376	\$ -
Available-for-sale securities	\$ 8,264,926	\$ -	\$ 5,788,981	\$ 2,475,945
Held-to-maturity securities	\$ 2,698,788	\$ -	\$ 2,698,788	\$ -
Mortgage-backed securities available for sale	\$ 8,971,489	\$ -	\$ 8,971,489	\$ -
Stock in FHLB and Federal Reserve Bank	\$ 2,172,150	\$ -	\$ 2,172,150	\$ -
Loans receivable, net	\$ 353,259,265	\$ -	\$ 355,354,852	\$ 425,000
Interest receivable	\$ 1,291,067	\$ -	\$ 1,291,067	\$ -
Financial liabilities				
Deposits	\$ 374,852,316	\$ -	\$ 353,920,975	\$ -
Interest payable	\$ 17,781	\$ -	\$ 17,781	\$ -
Advances from FHLB	\$ 8,400,000	\$ -	\$ 8,389,684	\$ -
Securities sold under agreements to repurchase	\$ 3,066,411	\$ -	\$ 3,066,411	\$ -
Commitments to originate loans, letters of credit and lines of credit	\$ -	\$ -	\$ -	\$ -

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The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-bearing Time Deposits Due from Depository Institutions

The carrying amount approximates fair value.

Held-to-Maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Stock in FHLB and Federal Reserve Bank

Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

Loans Receivable, Net

Fair value of loans is estimated by discounting the future cash flows using the market rates at which similar notes would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions.

Interest Receivable and Payable

The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

Deposits

The estimated fair value of demand deposits, savings accounts, NOW accounts and certain money market deposits is the book value since rates are regularly adjusted to market rates and amounts are payable on demand at the reporting date. Fair value of fixed-maturity time deposits is estimated by discounting the future cash flows using rates of similar deposits with similar maturities.

Advances from FHLB

Fair value is estimated by discounting the future cash flows using rates of similar borrowings with similar maturities. These rates were obtained from current rates offered by the FHLB.

Securities Sold Under Agreements to Repurchase

The estimated fair value for overnight repurchase agreements is book value.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the

Liberty Bancorp, Inc.
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present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the note on commitments and credit risk. Other significant estimates and concentrations not discussed in those notes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 20: Commitments and Credit Risk

Commitments to Originate Loans

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 on an appraisal of the property.

Liberty Bancorp, Inc.
Notes to Consolidated Financial Statements
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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 December 31, 2017 and 2016:

	2017		2016	
	Fixed-Rate	Adjustable-Rate	Fixed-Rate	Adjustable-Rate
Commitments to originate loans	\$ 7,573,750	\$ 3,256,132	\$ 2,922,000	\$ 10,078,124
Commitments for unused lines of credit	\$ 2,567,160	\$ 37,321,675	\$ 3,193,393	\$ 23,480,937
Commitments for undisbursed loans	\$ 7,069,395	\$ 27,713,939	\$ 11,706,143	\$ 28,338,940
Commitments for letters of credit	\$ 52,313	\$ 388,477	\$ 30,505	\$ 649,577

Note 21: Change in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard is effective as of January 1, 2018. The Company has determined the impact the amendment will have on the consolidated financial statements will be minimal.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing

Liberty Bancorp, Inc.
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standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2018. The company is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduces a new credit loss model, the current expected credit loss model (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk.

The CECL model utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models, which generally require that a loss be incurred before it is recognized. The CECL model represents a significant change from existing practice and may result in material changes to the Company’s accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the time of adoption. The new standard is effective for annual and interim periods beginning after December 15, 2020.

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LIBERTY BANCORP, INC.

SHAREHOLDER INFORMATION

Corporate Office & Commercial Banking Center

9200 N.E. Barry Road
Kansas City, MO 64157
(Shoal Creek Location)

Customer Relations

816-407-9200

Internet Banking

www.banklibertykc.com

Annual Meeting of Shareholders

Our annual shareholder meeting will be held on May 16, 2018 at 5:30 PM CST at our corporate office located at 9200 N.E. Barry Road, Kansas City, MO 64157.

Investor Relations

For additional copies of our Annual Report or for inquiries regarding additional shareholder related matters, visit us at www.banklibertykc.com or by contacting our Corporate Office. Shares of Liberty Bancorp, Inc. common stock (symbol LBCP) are currently quoted on OTC Markets.

Stock Transfer Agent and Registrar

Computershare, Inc.
250 Royall Street
Canton, MA 02021

Independent Auditor

BKD, LLP
One Metropolitan Square
211 N. Broadway, Suite 600
St. Louis, MO 63102

Legal Counsel

Kilpatrick Townsend & Stockton LLP
607 14th Street, NW
Suite 900
Washington, DC 20005-2018

Stock Information

The table below represents actual trading prices reflected during the normal course of business.

Calendar 2017	High	Low
First Quarter	\$23.94	\$19.25
Second Quarter	\$23.25	\$20.05
Third Quarter	\$22.10	\$21.25
Fourth Quarter	\$22.05	\$21.01

Where You Want To Be.

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Chairman of the Board

DR. DENNIS D. FISHER
Director

DANIEL G. O'DELL
Director

BRENT M. GILES
Director

RALPH W. BRANT JR.
Director

OFFICERS OF LIBERTY BANCORP, INC

BRENT M. GILES
President and Chief Executive Officer

STEVEN W. GILES
Chief Lending Officer

MARTIN J. WEISHAAR
Chief Operating Officer and General Counsel

CATHY G. TRUSLER
Corporate Secretary

TIFFANY M. GAMMILL
Chief Financial Officer

OFFICERS OF BANKLIBERTY

BRENT M. GILES
President and Chief Executive Officer

TIFFANY M. GAMMILL
Chief Financial Officer

MARTIN J. WEISHAAR
Chief Operating Officer and General Counsel

KENNETH M. HONECK
Chief Deposit Officer

STEVEN W. GILES
Chief Lending Officer

MONICA M. BOLIN
Chief Risk Officer



LIBERTY BANCORP, INC.

BankLiberty Locations

**Liberty • Platte City • Shoal Creek • Independence • Boardwalk • Gladstone
Northtown • Parkville • Riverside • Claycomo**

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816.407.9200**



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