

2009 Annual Report

Lexington B & L Financial Corp.

Lexington B & L Financial Corp.

2009 ANNUAL REPORT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lexington B & L Financial Corp.
Lexington, Missouri

We have audited the accompanying consolidated statements of financial condition of Lexington B & L Financial Corp. ("Company") as of September 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended September 30, 2009. These consolidated financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Moore, Horton & Carlson, P.C.

Mexico, Missouri
December 16, 2009

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30	
	2009	2008
ASSETS		
Cash and due from banks	\$ 2,018,462	\$ 2,191,811
Interest-bearing deposits	3,021,217	10,728,156
Federal funds sold	2,940,000	1,281,000
TOTAL CASH AND CASH EQUIVALENTS	<u>7,979,679</u>	<u>14,200,967</u>
Investment securities		
Available-for-sale, at fair value	17,779,885	15,550,556
Held-to-maturity (fair value of \$2,895,501 and \$2,554,285, respectively)	2,785,254	2,597,505
Loans held for sale	547,695	272,683
Loans receivable	95,142,556	95,615,057
Accrued interest receivable	848,745	1,005,335
Premises and equipment	3,755,177	3,920,768
Real estate owned	21,000	250,142
Investment required by law--Stock in FHLB, at cost	416,400	416,400
Cost in excess of net assets acquired	789,370	789,370
Other assets	1,639,377	1,768,080
TOTAL ASSETS	<u>\$131,705,138</u>	<u>\$136,386,863</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	\$111,324,437	\$115,493,925
Advances from borrowers for property taxes and insurance	380,419	310,747
Advances from FHLB	3,857,142	4,214,285
Note payable	25,000	---
Other liabilities	931,558	878,959
TOTAL LIABILITIES	<u>116,518,556</u>	<u>120,897,916</u>
Commitments and contingencies--Notes H and M		
Stockholders' Equity		
Preferred stock, \$.01 par value; 500,000 shares authorized, none issued		
Common stock, \$.01 par value; 8,000,000 shares authorized, 1,265,000 shares issued	12,650	12,650
Additional paid-in capital	12,738,790	12,738,790
Retained earnings	14,485,723	14,086,767
Accumulated other comprehensive loss	375,564	(41,551)
Treasury stock at cost--712,212 and 659,842 shares, respectively	(12,426,145)	(11,307,709)
TOTAL STOCKHOLDERS' EQUITY	<u>15,186,582</u>	<u>15,488,947</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$131,705,138</u>	<u>\$136,386,863</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2006	\$12,650	\$12,742,208	\$12,978,215	\$(196,416)	\$(10,488,297)	\$15,047,360
Net income	---	---	963,940	---	---	963,940
Other comprehensive income, net of tax of \$49,600	---	---	---	96,200	---	96,200
Repurchase of common stock	---	---	---	---	(700,921)	(700,921)
Shares issued pursuant to options exercised under Stock Option Plan	---	(3,418)	---	---	455,746	452,328
Dividends paid (\$.45 per share)	---	---	(313,874)	---	---	(313,874)
BALANCE AT SEPTEMBER 30, 2007	12,650	12,738,790	13,628,281	(100,216)	(10,733,472)	15,546,033
Net income	---	---	826,965	---	---	826,965
Other comprehensive income, net of tax of \$30,200	---	---	---	58,665	---	58,665
Repurchase of common stock	---	---	---	---	(574,237)	(574,237)
Dividends paid (\$.60 per share)	---	---	(368,479)	---	---	(368,479)
BALANCE AT SEPTEMBER 30, 2008	12,650	12,738,790	14,086,767	(41,551)	(11,307,709)	15,488,947
Net income	---	---	748,062	---	---	748,062
Other comprehensive loss, net of tax of \$214,800	---	---	---	417,115	---	417,115
Repurchase of common stock	---	---	---	---	(1,118,436)	(1,118,436)
Dividends paid (\$.60 per share)	---	---	(349,106)	---	---	(349,106)
BALANCE AT SEPTEMBER 30, 2009	<u>\$12,650</u>	<u>\$12,738,790</u>	<u>\$14,485,723</u>	<u>\$ 375,564</u>	<u>\$(12,426,145)</u>	<u>\$15,186,582</u>

Comprehensive Income

	Year Ended September 30		
	2009	2008	2007
Net Income	\$ 748,062	\$826,965	\$ 963,940
Change in unrealized gains (losses) on securities available-for-sale, net of taxes of \$214,800, \$30,200 and \$49,600, respectively	417,115	58,665	96,200
Less reclassification adjustment for gains included in net income, net of tax of \$1,946, \$7,393 and \$3,100, respectively	<u>3,777</u>	<u>14,352</u>	<u>5,968</u>
Comprehensive Net Income	<u>\$1,168,954</u>	<u>\$899,982</u>	<u>\$1,066,108</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended September 30		
	2009	2008	2007
Interest Income			
Mortgage loans	\$4,528,993	\$5,057,510	\$4,926,051
Other loans	1,541,826	1,823,299	2,079,740
Investment securities and interest-bearing deposits	954,651	1,165,454	1,152,107
Federal funds sold	<u>3,740</u>	<u>69,366</u>	<u>74,214</u>
Total Interest Income	7,029,210	8,115,629	8,232,112
Interest Expense			
Deposits	2,821,427	4,153,395	3,896,779
Advances from FHLB	204,215	229,648	396,013
Notes payable	<u>391</u>	<u>16,069</u>	<u>11,721</u>
Total Interest Expense	<u>3,026,033</u>	<u>4,399,112</u>	<u>4,304,513</u>
Net Interest Income	4,003,177	3,716,517	3,927,599
Provision for Loan Losses	<u>240,000</u>	<u>67,288</u>	<u>196,512</u>
Net Interest Income After Provision for Loan Losses	3,763,177	3,649,229	3,731,087
Noninterest Income			
Service charges and other fees	623,487	605,757	575,880
Commissions, net	14,964	14,957	12,261
Net income (loss) from repossessed assets	(27,784)	3,834	47,800
Gain on sale of investments	399	---	---
Other	<u>62,875</u>	<u>63,040</u>	<u>62,468</u>
Total Noninterest Income	673,941	687,588	698,409
Noninterest Expense			
Employee compensation and benefits	1,753,660	1,806,429	1,726,767
Occupancy costs	361,902	398,704	439,617
Advertising	50,617	72,116	77,297
Data processing	373,002	364,245	377,958
Federal insurance premium	272,812	15,400	13,049
Professional and consulting fees	77,502	68,519	70,277
Contributions	1,125	26,925	2,505
Other	<u>423,986</u>	<u>397,514</u>	<u>358,886</u>
Total Noninterest Expense	<u>3,314,606</u>	<u>3,149,852</u>	<u>3,066,356</u>
INCOME BEFORE INCOME TAXES	1,122,512	1,186,965	1,363,140
Income Taxes	<u>374,450</u>	<u>360,000</u>	<u>399,200</u>
NET INCOME	<u>\$ 748,062</u>	<u>\$ 826,965</u>	<u>\$ 963,940</u>
Basic Income per share	<u>\$1.33</u>	<u>\$1.36</u>	<u>\$1.53</u>
Diluted Income per share	<u>\$1.33</u>	<u>\$1.36</u>	<u>\$1.52</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended September 30
2009 2008 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 748,062	\$ 826,965	\$ 963,940
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	181,786	221,308	249,128
Amortization of premiums and discounts	60,142	33,287	61,321
Amortization of deferred loan fees	32,738	26,183	20,082
Provision for salary continuation plan costs	37,121	37,878	38,571
Salary continuation plan payout	(48,980)	(47,147)	(37,980)
(Gain) loss on sales of foreclosed real estate	53,412	(10,430)	(47,800)
Provisions for loan losses	240,000	67,288	196,512
Provision for deferred income taxes (benefit)	(58,400)	6,700	(33,800)
Originations of loans held for sale	(3,824,095)	(2,611,858)	(4,674,216)
Proceeds from sale of loans held for sale	3,549,083	2,503,435	4,796,074
Loss on disposal of premises and equipment	---	---	144
Changes to assets and liabilities increasing (decreasing) cash flows			
Accrued interest receivable	156,590	163,563	(118,420)
Other assets	6,693	(36,708)	(63,625)
Other liabilities	64,457	(73,130)	(109,475)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,198,609</u>	<u>1,107,334</u>	<u>1,240,456</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from maturities/sales of securities available-for-sale	5,791,153	9,713,758	4,192,591
Proceeds from maturities/calls of securities held-to-maturity	610,000	980,000	425,000
Purchase of FHLB stock	---	(5,000)	(105,900)
Proceeds from sale of FHLB stock	---	127,200	255,200
Purchase of MIB Stock	(42,500)	---	---
Loans originated, net of repayments	612,644	2,062,889	639,685
Proceeds from sales of foreclosed real estate	175,730	9,781	15,000
Purchase of securities available-for-sale	(7,446,458)	(13,022,660)	(1,400,000)
Purchase of securities held-to-maturity	(800,000)	(875,846)	---
Proceeds from sale of loans	---	---	700,000
Purchase of loans	(412,881)	---	(1,176,901)
Expenditures on real estate owned	---	(2,363)	(28,931)
Purchase of premises and equipment	(8,086)	(25,815)	(20,907)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(1,520,398)</u>	<u>(1,038,056)</u>	<u>3,494,837</u>

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS – Cont'd

	Year ended September 30		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	(4,169,488)	4,616,785	4,205,148
Net increase (decrease) in advances from borrowers for property taxes and insurance	69,672	(7,732)	63,472
Proceeds from notes payable	505,000	845,000	1,030,000
Payments on notes payable	(480,000)	(1,275,000)	(600,000)
Advance from FHLB			
Borrowings	---	---	5,000,000
Repayments	(357,143)	(2,857,143)	(8,357,143)
Payment of dividends	(349,106)	(368,479)	(313,874)
Proceeds from stock options exercised	---	---	452,329
Purchase of treasury stock	<u>(1,118,436)</u>	<u>(574,237)</u>	<u>(700,921)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(5,899,501)</u>	<u>379,194</u>	<u>779,011</u>
NET INCREASE (DECREASE) IN CASH	<u>(6,221,288)</u>	<u>448,472</u>	<u>5,514,304</u>
Cash and cash equivalents, beginning of year	<u>14,200,967</u>	<u>13,752,495</u>	<u>8,238,191</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,979,679</u>	<u>\$14,200,967</u>	<u>\$ 13,752,495</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for			
Interest	<u>\$3,057,472</u>	<u>\$4,435,582</u>	<u>\$4,315,924</u>
Income taxes	<u>\$ 372,069</u>	<u>\$ 410,000</u>	<u>\$ 548,000</u>
Noncash investing and financing activities are as follows:			
Loans to facilitate sales of real estate	<u>\$ ---</u>	<u>\$ 40,500</u>	<u>\$ 304,000</u>
Loans transferred to foreclosed real estate during the year	<u>\$ ---</u>	<u>\$ 239,374</u>	<u>\$ 35,725</u>
Total unrealized gain on securities available-for-sale	<u>\$ 631,916</u>	<u>\$ 88,865</u>	<u>\$ 145,799</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009, 2008 and 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying reporting policies and practices of the Company and its subsidiaries conform to generally accepted accounting principles accepted in the United States of America (“GAAP”) and to prevailing practices within the thrift and banking industries. A summary of the more significant accounting policies follows:

Nature of Operations: The Company, a Missouri corporation, is the holding company for B & L Bank (“B&L”), a Federal savings bank, and B & L Mortgage, Inc. (“MTG”), which originates and sells loans primarily in the secondary market. MTG currently retains no servicing rights on loans originated.

The Company, through its subsidiaries, provides a variety of financial services to individual and corporate customers including checking, money market and savings accounts and certificates of deposit. Its primary lending products are one- to four-family residential mortgage, commercial, agriculture and consumer loans.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, B&L and MTG. Significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet dates and income and expenses for the periods covered. Actual results could differ significantly from these estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Investment Securities: Investment securities are classified as held-to-maturity, which are recorded at amortized cost, or available-for-sale, which are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders’ equity until realized. Purchases of investment securities are recorded on trade date.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. These securities are reported at fair value.

Gains or losses on sales of securities are recognized in operations at the time of sale and are determined by the difference between the net sale proceeds and the cost of the securities using the specific identification method, adjusted for any unamortized premiums or discounts. Premiums or discounts are amortized or accreted to income using a method that approximates the interest method over the period to expected maturity.

Stock in Federal Home Loan Bank (“FHLB”): Stock in the FHLB is stated at cost and the amount of stock held is determined by regulation. No ready market exists for such stock and it has no quoted market value.

Loans Held for Sale: Mortgage loans originated and held for sale are carried at the lower of cost or market on an aggregate basis. Loans held for sale were originated by MTG and are generally committed for sale at the time of origination. MTG recognizes no gain or loss on the sale of these loans and receives a predetermined fee for the origination. Sales are made without recourse and no rights are retained on loans sold to others.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont’d

Loans Receivable: Loans receivable are carried at unpaid principal balances, adjusted for deferred loan origination fees and the allowance for loan losses. Loan origination and commitment fees and certain direct loan origination costs are deferred in accordance with provisions of Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification* (“ASC”) 310-20, *Receivables - Nonrefundable Fees and Other Costs*. Pursuant to the provisions of FASB ASC 310-20, origination fees received from loans, net of direct origination costs, are deferred and amortized to interest income over the contractual life of the loan using a method which approximates the interest method.

The Company’s real estate loan portfolio consists primarily of long-term loans secured by first-trust deeds on single-family residences, other residential property, commercial property and land. The adjustable-rate mortgage is the Company’s primary loan investment.

Mortgage and Consumer loans which comprise the Company’s homogeneous loan portfolio, are automatically placed on nonaccrual status when principal or interest is delinquent for 90 days or more. Loans in the homogeneous loan portfolio are automatically returned to accrual status at such time as principal and interest on the loans are less than 90 days delinquent. Loans in the Company’s non-homogeneous loan portfolio are generally placed on nonaccrual status when principal and interest is delinquent for 90 days or more. Non-homogeneous loans are returned to accrual status when, in management’s judgment, the borrowers have the ability to make periodic interest and principal payments in accordance with contractual loan terms. Accrued interest on loans placed on nonaccrual status is reversed and interest income is recognized only to the extent cash payments are received until such time the loan is returned to accrual status.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level that, in management’s judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management’s evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

The Company accounts for impaired loans under FASB ASC 310-10-35, *Receivables Overall - Subsequent Measurement Impairment*. All nonaccrual loans are considered impaired, except those classified as small-balance homogeneous loans, which are collectively evaluated for impairment on the basis of historical loss data and other qualitative factors. The Company considers all one-to four and multi-family residential mortgage loans, and all consumer and other loans to be smaller homogeneous loans. Impaired loans are assessed individually and impairment identified when (a) the accrual of interest has been discontinued, (b) loans have been restructured, or (c) management has serious doubts about the future collectibility of principal and interest, even though the loans are currently performing. Factors considered in determining impairment include, but are not limited to: expected future cash flow, the financial condition of the borrower and current economic conditions. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the valuations. In addition, regulatory examiners may require changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Management has elected to continue to use its existing nonaccrual methods for recognizing interest income on impaired loans.

Premises and Equipment: Premises and equipment have been stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed generally on a straight-line basis over the estimated useful lives of the respective assets, which range from five to forty years.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont’d

Foreclosed Real Estate: Real estate acquired in settlement of loans is initially recorded, and subsequently carried, at the lower of the balance of the related loan at the time of foreclosure or fair value less the estimated costs to sell the asset. At foreclosure, any excess of the recorded investment in the loan over the fair value less cost to sell the property is charged to the allowance for loan losses. After foreclosure any reductions in fair value are recognized as a valuation allowance against the asset and a charge to expense.

Costs of holding foreclosed property are charged to expense in the current period, except for significant property improvements that are capitalized to the extent that carrying value does not exceed estimated fair market value. Costs to maintain foreclosed real estate are included in net income (loss) from repossessed assets.

Advertising: The Company’s policy with regard to advertising costs is to expense such costs as incurred.

Cost in Excess of Net Assets Acquired: Amounts paid for subsidiaries in excess of the fair value of the net assets are recorded as an asset and were being amortized on a straight-line basis over fifteen years until September 30, 2002. The Company adopted FASB ASC 350, *Intangibles - Goodwill and Other*, on October 1, 2002. As required by FASB ASC 350, cost in excess of net assets acquired is now tested for impairment annually rather than being amortized. FASB ASC 350 also requires disclosure of reported income and earnings per share amounts in all periods presented exclusive of amortization of goodwill. No impairment was recorded at September 30, 2009, 2008 and 2007.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carry forward attributes exceed management’s estimates of taxes payable on future taxable income.

Stock Option Plan: As allowed under FASB ASC 718, *Compensation - Stock Compensation*, the Company measures stock-based compensation cost in accordance with Accounting Principles Board Opinion (“APBO”) No. 25, *Accounting For Stock Issued To Employees*. The Company has included in Note K the effect of the fair value of the stock option plan on net income earnings per share on a pro forma basis pursuant to FASB ASC 718.

Statements of Cash Flows: For purposes of the cash flows, cash and amounts due from depository institutions and interest-bearing deposits in other banks with a maturity of three months or less at date of purchase and federal funds sold are considered cash equivalents.

Risks and Uncertainties: The Company is a community-oriented financial institution that provides traditional financial services within the areas it serves. The Company is engaged primarily in the business of attracting deposits from the general public and using these funds to originate one- to four-family residential mortgage, commercial, agriculture and consumer loans located primarily in Lafayette and Macon Counties, Missouri. Accordingly, the ultimate collectibility of the Company’s loan portfolio is dependent upon market conditions in that area. This geographic concentration is considered in management’s establishment of the allowance for loan losses.

In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice more or less rapidly, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company’s loan portfolio that results from the borrower’s inability or unwillingness to make contractually required payments. Market risk results from changes in the value of assets and liabilities that may impact, favorably or unfavorably, the realizability of those assets and liabilities held by the Company.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont’d

The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators’ judgments based on information available to them at the time of their examination.

Net Income Per Share: Basic income per share is based upon the weighted average number of common shares outstanding during the periods presented. Diluted income per share includes the effects of all dilutive potential common shares outstanding during each period.

Reclassification: Certain amounts in the prior periods consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent Events: Management has evaluated the events and transactions that occurred after the financial statement date of September 30, 2009 through December 16, 2009, the date the consolidated financial statements were available to be issued. There have been no material events or transactions which would require adjustments or disclosures to the consolidated financial statements at September 30, 2009.

NOTE B--INVESTMENT SECURITIES

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains Losses</u>		<u>Fair Value</u>
September 30, 2009:				
Available-for-sale				
U.S. Government and Federal agency obligations	\$ 4,869,397	\$ 103,320	\$ (282)	\$ 4,972,435
Mortgage-backed securities	<u>12,341,524</u>	<u>483,759</u>	<u>(17,833)</u>	<u>12,807,450</u>
	<u>\$17,210,921</u>	<u>\$587,079</u>	<u>\$(17,833)</u>	<u>\$17,779,885</u>
Held-to-maturity				
State and local obligations	<u>\$ 2,785,254</u>	<u>\$110,247</u>	<u>\$ ---</u>	<u>\$ 2,895,501</u>
September 30, 2008:				
Available-for-sale				
U.S. Government and Federal agency obligations	\$ 1,764,523	\$ 4,230	\$ (491)	\$ 1,768,262
Mortgage-backed securities	<u>13,848,984</u>	<u>43,302</u>	<u>(109,992)</u>	<u>13,782,294</u>
	<u>\$15,613,507</u>	<u>\$ 47,532</u>	<u>\$(110,483)</u>	<u>\$15,550,556</u>
Held-to-maturity				
State and local obligations	<u>\$ 2,597,505</u>	<u>\$ 4,550</u>	<u>\$(47,770)</u>	<u>\$ 2,554,285</u>

NOTE B—INVESTMENT SECURITIES – Cont’d

The scheduled contractual maturities of debt securities at September 30, 2009, are shown below. Mortgaged-backed securities are allocated on the basis of the prior three months historical constant prepayment rate. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

	<u>Held-to-Maturity</u>		<u>Available-for-Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing:				
One year or less	\$ ---	\$ ---	\$ 2,286,080	\$ 2,378,319
After one year through five years	820,000	832,317	5,804,042	6,023,166
After five years through ten years	919,039	977,478	6,197,603	6,374,212
After ten years	<u>1,046,215</u>	<u>1,085,706</u>	<u>2,923,196</u>	<u>3,004,188</u>
	<u>\$2,785,254</u>	<u>\$2,895,501</u>	<u>\$17,210,921</u>	<u>\$17,779,885</u>

Securities held-to-maturity were called for redemption for total proceeds of \$610,000, \$980,000 and \$425,000 resulting in no gross realized gain or losses in 2009 or 2008 or 2007, respectively.

Available-for-sale securities were called for redemption for total proceeds of \$5,791,153, \$9,713,758 and \$4,135,605 resulting in a gross realized gain of \$399 in 2009 and no gross realized gains or losses in 2008 and 2007, respectively.

Investment securities were pledged to secure deposits as required or permitted by law, with an amortized cost of \$15,940,610 and \$13,940,847 and fair value of \$16,506,201 and \$13,820,980 at September 30, 2009 and 2008, respectively. Further, time deposits totaling \$0 and \$1,500,000 at September 30, 2009 and 2008 respectively, at the FHLB Des Monies were pledged to secured deposits as required or permitted by law.

Provided below is a summary of available-for-sale securities which were in an unrealized loss position at September 30, 2009. Approximately \$17,475 or 96% of the unrealized loss was comprised of securities in a continuous loss position for twelve months or more. The Company has the intent and the ability to hold these securities until such time as the value recovers or the securities mature. Further, the Company believes the deterioration in value is attributable to changes in market interest rates and not credit quality of the issuer; therefore, these investments are not considered other-than-temporarily impaired.

	<u>Under One Year</u>		<u>One Year or More</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Gross Unrealized Losses</u>
U. S. Government and Federal agency obligations	\$351,962	\$282	\$ ---	\$ ---	\$ 351,962	\$ 282
Mortgage-backed securities	<u>56,008</u>	<u>358</u>	<u>1,500,279</u>	<u>17,475</u>	<u>1,556,287</u>	<u>17,833</u>
	<u>\$407,970</u>	<u>\$ 640</u>	<u>\$1,500,279</u>	<u>\$17,475</u>	<u>\$1,908,249</u>	<u>\$18,115</u>

NOTE C--LOANS RECEIVABLE

Loans receivable consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
Mortgage loans:		
One- to four-family residences	\$52,007,783	\$52,088,834
Commercial and Multi-family residential	12,678,220	12,537,954
Construction	2,389,790	2,407,805
Land	<u>5,538,818</u>	<u>6,243,504</u>
	72,614,611	73,278,097
Commercial	7,934,418	7,868,904
Agricultural	11,042,198	10,188,276
Consumer and other loans:		
Home equity	321,051	334,854
Loans on savings	808,990	996,786
Automobile	2,409,257	2,556,283
Overdrafts	158,944	117,620
Other	<u>1,069,985</u>	<u>1,372,366</u>
	<u>4,768,227</u>	<u>5,377,909</u>
	96,359,454	96,713,186
Net deferred loan-origination fees	154,169	104,399
Allowance for loan losses	<u>(1,371,067)</u>	<u>(1,202,528)</u>
	<u>\$95,142,556</u>	<u>\$95,615,057</u>

At September 30, 2009 and 2008, the Company serviced loans amounting to \$1,034,027 and \$1,522,661, respectively, for the benefit of others. Also, the Company had loans serviced by others amounting to \$1,613,971 and \$1,781,433 at September 30, 2009 and 2008 respectively.

One- to four-family loans are pledged under a blanket pledge agreement to secure FHLB advances.

In the ordinary course of business, the Company makes loans to its directors and officers at substantially the same terms prevailing at the time of origination for comparable transactions with borrowers. The following is a summary of related party loan activity:

	Year ended September 30	
	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$621,488	\$466,299
New director and officer beginning loan balances at September 30, 2008	672,397	---
Originations	378,695	251,663
Payments	<u>(772,527)</u>	<u>(96,474)</u>
BALANCE, END OF YEAR	<u>\$900,053</u>	<u>\$621,488</u>

NOTE C--LOANS RECEIVABLE - Cont'd

Activity in the allowance for loan losses is as follows:

	Year ended September 30		
	2009	2008	2007
Balance, beginning of year	\$1,202,528	\$1,214,697	\$1,075,761
Provision for loan losses	240,000	67,288	196,512
Charge-offs, net of recoveries	<u>(71,461)</u>	<u>(79,457)</u>	<u>(57,576)</u>
BALANCE, END OF YEAR	<u>\$1,371,067</u>	<u>\$1,202,528</u>	<u>\$1,214,697</u>

The following table sets forth information regarding nonperforming loans included in loans receivable as of September 30:

	2009	2008
Nonaccrual loans	\$6,600,906	\$649,198
Accruing loans which are 90 days or more overdue	<u>---</u>	<u>44,630</u>
	<u>\$6,600,906</u>	<u>\$693,828</u>

Information about loans that meet the *FASB ASC 310-10-35* definition of an impaired loan is as follows as of September 30:

	2009		2008	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Impaired loans with related allowance	\$2,881,512	\$426,000	\$1,766,062	\$236,000
Impaired loans with no related allowance	<u>670,275</u>	<u>---</u>	<u>141,858</u>	<u>---</u>
	<u>\$3,551,787</u>	<u>\$426,000</u>	<u>\$1,907,920</u>	<u>\$236,000</u>

The average recorded investment in impaired loans during the year ended September 30, 2009 and 2008 was \$3,096,836 and \$978,679, respectively. The amount of interest included in interest income on such loans for the year ended September 30, 2009 and 2008, amounted to approximately \$786,358 and \$129,302, respectively.

NOTE D--ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at September 30:

	2009	2008
Loans	\$737,372	\$ 884,067
Investment securities and interest bearing deposits	<u>111,373</u>	<u>121,268</u>
	<u>\$848,745</u>	<u>\$1,005,335</u>

NOTE E--PREMISES AND EQUIPMENT

Premises and equipment consists of the following at September 30:

	<u>2009</u>	<u>2008</u>
Land	\$ 817,328	\$ 817,328
Building and improvements	3,793,052	3,799,999
Furniture and equipment	985,804	1,199,173
	<u>5,596,184</u>	<u>5,816,500</u>
Less accumulated depreciation and amortization	<u>1,841,007</u>	<u>1,895,732</u>
	<u>\$3,755,177</u>	<u>\$3,920,768</u>

Depreciation expense on premises and equipment for 2009, 2008 and 2007 totaled \$173,676, \$213,198 and \$241,018 respectively.

An unused banking facility consisting of land and building cost of \$93,200 and \$288,483, respectively, is included in other assets. The facility is held for sale and is currently rented under an operating lease. Rental income on leased property for 2009 and 2008 totaled \$9,900 and \$11,700, respectively, and depreciation expense amounted to \$8,110 annually. Future minimum rentals amount to \$900 per month through March 31, 2012.

NOTE F--DEPOSITS

Deposit account balances are summarized as follow at September 30:

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Noninterest-bearing	\$ 11,192,615	10.05%	\$ 10,366,611	8.98%
NOW	12,213,441	10.97	15,232,124	13.19
Money Market	3,875,765	3.48	3,528,509	3.05
Passbook savings	<u>14,723,926</u>	<u>13.23</u>	<u>13,335,762</u>	<u>11.55</u>
	42,005,747	37.73	42,463,006	36.77
Certificates of deposit:				
0.00 to 0.99%	123,726	0.11	---	---
1.00 to 1.99%	5,797,561	5.21	170,479	0.14
2.00 to 2.99%	42,268,730	37.97	17,694,150	15.32
3.00 to 3.99%	15,579,585	14.00	9,504,997	8.23
4.00 to 4.99%	5,549,088	4.98	18,732,343	16.22
5.00 to 5.99%	---	---	<u>26,928,950</u>	<u>23.32</u>
	<u>69,318,690</u>	<u>62.27</u>	<u>73,030,919</u>	<u>63.23</u>
	<u>\$111,324,437</u>	<u>100.00%</u>	<u>\$115,493,925</u>	<u>100.00%</u>
Weighted Average Interest Rates	<u>2.16%</u>		<u>3.31%</u>	

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$17,825,594 and \$18,720,254 at September 30, 2009 and 2008, respectively. The Company had other time and demand deposits with a minimum denomination of \$100,000 totaling \$13,392,563 and \$14,254,590 at September 30, 2009 and 2008, respectively. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily raised the base limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The increase is effective until December 31, 2013. Prior to October 3, 2008, deposits over \$100,000 were not insured by the Federal Deposit Insurance Corporation except that effective April 1, 2006, federal law expanded the coverage for self-directed retirement accounts up to \$250,000.

NOTE F--DEPOSITS - Cont'd

The Company had deposits of approximately \$2,316,907 and \$1,921,181 for its directors and officers at September 30, 2009 and 2008, respectively.

At September 30, 2009, contractual maturities of certificate accounts are as follows:

Stated Interest Rate	2010	2011	2012	2013	2014	After
0.00 to 0.99%	\$ 123,726	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
1.00 to 1.99%	5,797,561	---	---	---	---	---
2.00 to 2.99%	31,577,811	9,202,133	1,285,892	202,895	---	---
3.00 to 3.99%	10,901,962	2,108,315	797,906	522,710	579,770	668,921
4.00 to 4.99%	<u>2,094,096</u>	<u>1,567,630</u>	<u>194,859</u>	<u>1,676,333</u>	<u>16,170</u>	<u>---</u>
	<u>\$50,495,156</u>	<u>\$12,878,078</u>	<u>\$2,278,657</u>	<u>\$2,401,938</u>	<u>\$595,940</u>	<u>\$668,921</u>

Interest expense on deposits is as follows:

	Year ended September 30		
	2009	2008	2007
Now, Money Market and Passbook savings accounts	\$ 306,378	\$ 609,659	\$ 910,830
Certificate accounts	<u>2,515,049</u>	<u>3,543,736</u>	<u>2,985,949</u>
	<u>\$2,821,427</u>	<u>\$4,153,395</u>	<u>\$3,896,779</u>

NOTE G--ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from FHLB consist of the following at September 30:

	2009	2008
5.26% fixed rate, due March 21, 2011, callable quarterly after one year if the three-month LIBOR rate is equal to or greater than 8%. If called, the Bank has the option of requesting any advance from FHLB otherwise available pursuant to its credit policy.	\$3,500,000	\$3,500,000
3.43% fixed rate, due February 18, 2010	<u>357,142</u>	<u>714,285</u>
	<u>\$3,857,142</u>	<u>\$4,214,285</u>

Scheduled maturities of FHLB advances are as follows:

Year ending September 30	Amount
2010	\$ 357,142
2011	<u>3,500,000</u>
	<u>\$3,857,142</u>

NOTE G--ADVANCES FROM FEDERAL HOME LOAN BANK - Cont'd

The advances are collateralized by a blanket pledge agreement with FHLB under which the Company can draw advances of unspecified amounts. The Company must hold an unencumbered portfolio of one- to four-family residential mortgages with a book value of not less than 135% of the indebtedness. The maximum remaining borrowing capacity at September 30, 2009 and 2008 is approximately \$28,177,689 and \$34,594,178, respectively. The advance agreements include certain prepayment privileges that generally include penalty provisions if prepaid before certain specified dates.

NOTE H--LINES OF CREDIT

The Company had a \$1,500,000 operating line of credit with a correspondent bank. The line was opened March 11, 2003 and expired on April 7, 2009. Advances on the line were payable on demand and accrued interest at 50 basis points under the prime rate. Proceeds of the line were used to repurchase shares of the Company's outstanding stock. There were no open advances on the line at September 30, 2009 or September 30, 2008.

B & L Mortgage has a \$500,000 open line of credit with a correspondent bank. The line was opened on June 17, 2009 and expires on June 17, 2010. Advances on the line are payable on demand and accrue interest at 50 basis points under the prime rate with a minimum interest rate of 4.50%. Proceeds of the line are used to fund loan originations. The Company has pledged the stock in its banking subsidiary, B & L Bank, as collateral for this line. At September 30, 2009, the line had an outstanding balance of \$25,000. During the year ended September 30, 2009, \$505,000 was advanced under this line.

B & L Mortgage had a \$1,000,000 line of credit with the same correspondent bank that expired on April 7, 2009. The line was opened on March 11, 2003 and advances on the line were payable on demand and accrued interest at 50 basis points under the prime rate. B & L Bank stock was pledged as collateral for this line. On September 30, 2008, there were no open advances. During the year ended September 30, 2008, \$195,000 was advanced under this line.

NOTE I--INCOME TAXES

Components of income tax expense (benefit) are as follows:

	Year ended September 30		
	2009	2008	2007
Current	\$432,850	\$353,300	\$430,000
Deferred (benefit)	<u>(58,400)</u>	<u>6,700</u>	<u>(33,800)</u>
	<u>\$374,450</u>	<u>\$360,000</u>	<u>\$396,200</u>

During 1996, the Small Business Job Protection Act (the "Act") was signed into law. The Act eliminated the percentage of taxable income bad debt deductions for thrift institutions for tax years beginning after December 31, 1995. The Act provides that bad debt reserves accumulated prior to 1988 be exempt from recapture. Bad debt reserves accumulated after 1987 are subject to recapture over a six year period. B&L has provided for deferred income taxes for the reserve recapture after 1987; therefore the impact of this legislation will not have a material effect on B&L's financial statements.

Prior to the enactment of the Act, B&L accumulated approximately \$2,000,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for income tax purposes only. If any of this amount is used other than to absorb loan losses (which is not anticipated), the amount will be subject to income tax at the current corporate rates.

NOTE I--INCOME TAXES - Cont'd

The provision for income taxes as shown on the consolidated statements of income differs from amounts computed by applying the statutory federal income tax rate of 34% to income before taxes as follows:

	Year ended September 30					
	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Income tax expense at statutory rate	\$381,654	34.0%	\$403,568	34.0%	\$463,468	34.0%
Increase (decrease) in taxes resulting from:						
Officers life insurance	(10,408)	(0.9)	(10,227)	(0.9)	(9,672)	(0.7)
Tax exempt income, net of related expenses	(37,744)	(3.4)	(36,990)	(3.1)	(49,459)	(3.6)
State income tax, net of federal benefit	40,194	3.6	7,524	0.6	30,426	2.2
Stock options exercised	---	---	---	---	(18,174)	(1.3)
Other, net	754	0.1	(3,875)	(0.3)	(17,389)	(1.3)
	<u>\$374,450</u>	<u>33.4%</u>	<u>\$360,000</u>	<u>30.3%</u>	<u>\$399,200</u>	<u>29.3%</u>

Deferred income taxes reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. Temporary differences that give rise to a significant portion of deferred tax assets and liabilities are as follows at September 30:

	2009	2008
Deferred tax assets		
Allowance for loan losses	\$484,800	\$422,400
Deferred compensation	158,000	162,400
Unrealized loss on available-for-sale securities	(193,400)	21,400
Deferred tax liabilities		
Depreciation	300	(100)
FHLB stock dividend	(58,300)	(58,300)
NET DEFERRED TAX ASSET	<u>\$391,400</u>	<u>\$547,800</u>

On October 1, 2007, the Company adopted the provisions of Accounting for Uncertainty in Income Taxes, codified as FASB ASB 740 "Income Taxes". FASB ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement for a tax position taken or expected to be taken in a tax return. FASB ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FASB ASC 740 are to be applied to all tax positions upon initial adoption of the standard. Tax positions must meet a more-likely-than-not recognition threshold at the effective date in order for the related tax benefit to be recognized or continue to be recognized upon adoption of FASB ASC 749. The implementation of FASB ASC 740 did not have an effect on the Company's financial statements. As of September 30, 2009, there were no unrecognized tax benefits. The Company does not anticipate the total amount of unrecognized tax benefits to significantly change within the next 12 months. The Company recognizes interest and penalties on income tax assessments or income tax refunds, where applicable, in the financial statements as a component of its provision for income taxes. There were no amounts for interest and penalties for the years ended September 30, 2009, 2008 and 2007 and no amounts accrued at September 30, 2009 and 2008.

The Company and its subsidiaries file consolidated federal and Missouri income tax returns. The Company is no longer subject to federal and state income tax examinations for tax years prior to 2004.

NOTE J--REGULATORY CAPITAL REQUIREMENTS

B&L is subject to various regulatory capital requirements administered by the Office of Thrift Supervision (“OTS”). Failure to meet the capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action regulations established by the FDIC, B&L must meet capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Under OTS regulations, annual cash dividends paid by savings institutions is limited to an amount equal to net income for the current year plus retained net income for the preceding two years. Dividends in excess of this amount require OTS approval.

Quantitative measures, established by regulations to ensure capital adequacy, require the Company’s subsidiary bank to maintain minimum amounts and ratios, as set forth in the table below, of Total Risk-Based Capital to Risk-Weighted Assets, Tier 1 Capital to Risk-Weighted Assets, Tier 1 Capital to Adjusted Assets (the leverage ratio), and Tangible Capital to Adjusted Assets.

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
(Dollars in Thousands)							
As of September 30, 2009							
B & L Bank							
Total Risk-Based Capital (to Risk Weighted Assets)	\$13,284	15.53%	≥	\$6,841	8.00%	≥	\$8,552 10.00%
Tier 1 Capital (to Risk Weighted Assets)	12,673	14.82	≥	3,421	4.00	≥	5,131 6.00
Tier 1 Capital (to Adjusted Assets)	12,673	9.71	≥	3,914	3.00	≥	6,524 5.00
Tangible Capital (to Adjusted Assets)	12,673	9.71	≥	1,957	1.50		N/A N/A
As of September 30, 2008							
B & L Bank							
Total Risk-Based Capital (to Risk Weighted Assets)	\$12,623	15.08%	≥	6,696	8.00%	≥	\$8,370 10.00%
Tier 1 Capital (to Risk Weighted Assets)	11,948	14.27	≥	3,348	4.00	≥	5,022 6.00
Tier 1 Capital (to Adjusted Assets)	11,948	8.81	≥	4,070	3.00	≥	6,784 5.00
Tangible Capital (to Adjusted Assets)	11,948	8.81	≥	2,035	1.50		N/A N/A

Management believes that as of September 30, 2009 and 2008, the Company’s banking subsidiary met all capital requirements to which they were subject. In the most recent notification from the OTS, the subsidiary bank was categorized as well capitalized under the regulatory framework for prompt corrective action. There have been no events or conditions since that notification that management believes would change the bank's capital category.

NOTE K--EMPLOYEE BENEFITS

B&L is a participating employer in the Financial Institution Retirement Fund, a multi-employer defined benefit pension plan that covers substantially all full-time employees after one year of service. B&L's policy is to fund pension costs as necessary. The plan has been fully funded since June 30, 1997. Pension expense of \$169,000, \$240,000 and \$204,000 was recognized for the years ended September 30, 2009, 2008 and 2007, respectively.

B&L also has a 401(k) salary reduction plan for all full-time employees. The plan is entirely funded by participant contributions. Participants may make deferrals up to 15% of compensation, subject to Internal Revenue Code limitations.

The Company has also entered into salary continuation agreements with four of its officers. These agreements provide for monthly-deferred compensation payments for a period of 180 months following retirement. The Company has purchased life insurance policies to fund these agreements. Deferred compensation charged to operations for the years ended September 30, 2009, 2008 and 2007, was \$37,121, \$37,878 and \$38,571, respectively.

On June 5, 1996, the Company established an Employee Stock Ownership Plan ("ESOP") for the benefit of participating employees. Employees are eligible to participate upon attaining age twenty-one and completing one year of service. Benefits are payable upon a participant's retirement, death, disability or separation from service.

The Company has entered into three-year employment agreements with certain members of management. Under the agreements, the Company will pay the members their initial base salaries, which may be increased at the discretion of the Board of Directors. Additionally, the agreements provide for severance payments if employment is terminated following a change in control. These payments will be equal to 2.99 times their average annual compensation paid during the five years immediately preceding the change in control.

The Company authorized and the shareholders approved the adoption of a stock option plan. Under the stock option plan, options to acquire 126,500 shares of the Company's stock were granted to certain officers, directors and employees of the Company and B&L. The options enabled the recipient to purchase stock at an exercise price equal to the fair market value of the stock at the date of grant. On June 11, 1997, the Company granted options for 101,200 shares for \$15.125 per share. The options vested over the five years following the date of grant and were exercisable for up to 10 years.

The Company accounted for its stock options in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, under which compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Stock options granted under the plan had an exercise price equal to the market value of the stock at date of grant, accordingly, no stock-based compensation cost was reflected in net income.

Following is a summary of the fair values of options granted using the Black-Scholes option-pricing model.

Fair value at grant date	\$6.94
Assumptions:	
Dividend yield	1.14%
Volatility	20.27%
Risk-free interest rate	6.10%
Expected life	10 years

No options were granted during fiscal year 2009, 2008 or 2007. Additional paid-in capital was not affected in 2009 or 2008, and decreased \$3,418 in 2007 for deficiency of the cost of treasury shares used to redeem the options exercised over the amount received for the options.

NOTE K--EMPLOYEE BENEFITS – Cont'd

A summary of the status of the plan at September 30, 2009, 2008 and 2007 and the changes during the years as follows:

	2009		2008		2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	---	\$15.125	---	\$15.125	42,556	\$15.125
Exercised	---	\$15.125	---	\$15.125	(29,906)	\$15.125
Expired	---	\$15.125	---	\$15.125	(12,650)	\$15.125
Outstanding at end of year	---	\$15.125	---	\$15.125	---	\$15.125

NOTE L--INCOME PER SHARE

The shares used in calculation of basic and diluted income per share are as follows:

	Year ended September 30		
	2009	2008	2007
Weighted average common shares outstanding	565,059	610,044	628,707
Stock options and MRDP	---	---	4,160
	<u>565,059</u>	<u>610,044</u>	<u>632,867</u>

NOTE M--FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, CONCENTRATIONS OF CREDIT RISK AND CONTINGENCIES

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet customer financing needs. These financial instruments consist principally of commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. The Company does not generally require collateral or other security on unfunded loan commitments until such time that loans are funded. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Such collateral consists primarily of residential properties.

NOTE M--FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, CONCENTRATIONS OF CREDIT RISK AND CONTINGENCIES – Cont’d

At September 30, 2009 and 2008, the Company was committed to originate loans as follows:

	September 30, 2009			September 30, 2008		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Mortgage	\$1,934,826	\$507,596	\$2,442,422	\$1,902,068	\$554,755	\$2,456,823
Agricultural	1,281,178	271,934	1,553,112	729,068	574,354	1,303,422
Commercial	344,622	305,034	649,656	130,860	716,613	847,473
Consumer and other loans	71,622	572,373	643,995	178,144	470,278	648,422
	<u>\$3,632,248</u>	<u>\$1,656,937</u>	<u>\$5,289,185</u>	<u>\$2,940,140</u>	<u>\$2,316,000</u>	<u>\$5,256,140</u>

Fixed loan commitments at September 30, 2009 and 2008, have terms of nine years or less with interest rates ranging from 3.00% to 12.00% and 3.85% to 9.50% respectively. The Company also has outstanding letters of credit in the amount of \$3,600 and \$3,050 , respectively, at September 30, 2009 and 2008.

At September 30, 2009 and 2008, the Company had amounts on deposit at banks and federal agencies in excess of federally insured limits of approximately \$1,649,447 and \$11,422,986, respectively.

In addition, the Company from time to time becomes a defendant in certain claims and legal actions arising in the ordinary course of business. At September 30, 2009, there were no such claims and legal actions.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective October 1, 2008, the Company has adopted FASB ASC 820, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at September 30, 2009. The Company’s available-for-sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as REO, goodwill and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost or fair value accounting or write-downs of individual assets.

The Company determines fair values based on the fair value hierarchy established in FASB ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS – Cont’d

Level 3 - Valuation is determined using model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow methods and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Available-for-sale securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair values for all available-for-sale securities are obtained from independent nationally recognized pricing services that use various pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 available-for-sale securities include federal agency obligations and mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae.

The following table presents the balance of assets measured at fair value on a recurring basis:

	September 30, 2009			Total
	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)	
Available-for-sale				
Federal agency obligations	\$ ---	\$ 4,972,435	\$ ---	\$ 4,972,435
Mortgage-backed securities	---	<u>12,807,450</u>	---	<u>12,807,450</u>
	<u>\$ ---</u>	<u>\$17,779,885</u>	<u>\$ ---</u>	<u>\$17,779,885</u>

The following is a description of the valuation methodologies used for assets measured at fair value on a non-recurring basis:

Impaired Loans: Loans which meet certain criteria are evaluated individually for impairment. Substantially all of the Company’s impaired loans at September 30, 2009 are secured by real estate. These impaired loans are individually assessed to determine that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3.

Real Estate Owned: Real estate acquired in settlement of loans is carried at the lower of the balance of the related loan at the time of foreclosure or fair value less the estimated costs to sell the asset. Fair value is estimated through current appraisals, real estate brokers or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS – Cont'd

Goodwill: As required by FASB ASC 350 *Intangibles—Goodwill and Other*, cost in excess of net assets acquired is tested for impairment annually rather than being amortized. No impairment was recorded at September 30, 2009 and 2008.

The following table presents the balance of assets measured at fair value on a non-recurring basis:

	September 30, 2009				Total Gains (Losses)
	Fair Value Measurements Using			Total	
	Quoted Prices Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Impaired loans	\$ ---	\$ ---	\$3,551,787	\$3,551,787	\$ ---
Real estate owned	---	---	21,000	21,000	(40,000)
Costs in excess of net assets acquired	---	---	789,370	789,370	---
	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$4,362,157</u>	<u>\$4,362,157</u>	<u>\$(40,000)</u>

The following table presents estimated fair value of the Company's financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, estimates presented are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
ASSETS				
Cash	\$ 2,018	\$ 2,018	\$ 2,192	\$ 2,192
Interest-bearing deposits	3,021	3,021	10,728	10,728
Federal funds sold	2,940	2,940	1,281	1,281
Investment securities available-for-sale	17,780	17,780	15,551	15,551
Investment securities held-to-maturity	2,785	2,896	2,598	2,554
Stock in FHLB	416	416	416	416
Loans held for sale	548	548	273	273
Loans receivable	95,143	95,686	95,615	95,318
Accrued interest receivable	849	849	1,005	1,005
LIABILITIES				
Transaction accounts	42,006	42,006	42,463	42,463
Certificates of deposit	69,319	69,614	73,031	72,916
Advances from borrowers for taxes and insurance	380	380	311	311
Advances from FHLB	3,857	3,969	4,214	4,255
Notes payable	25	25	---	---

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS – Cont'd

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Cash and due from banks and interest-bearing deposits: The carrying amounts of cash and due from depository institutions and certificates of deposit approximate their fair value.

Federal funds sold: The carrying value approximates fair value.

Investment and mortgage-backed securities: Fair value is primarily based on quoted market prices for similar assets or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets.

Stock in FHLB: This stock is a restricted asset and its carrying value is a reasonable estimate of fair value.

Loans held for sale: The carrying value approximates fair value based on sales commitments at the time of origination.

Loans receivable: The fair value of first mortgage loans is estimated by using discounted cash flow analyses, using interest rates currently offered by the Company for loans with similar terms to borrowers of similar credit quality. The majority of real estate loans are residential. First mortgage loans are segregated by fixed and adjustable interest terms. The fair value of consumer loans is calculated by using the discounted cash flow based upon the current market for like instruments. Fair values for impaired loans are estimated using discounted cash flow analyses.

Accrued interest receivable: The carrying value approximates fair value.

Transaction deposits: Transaction deposits, payable on demand or with maturities of 90 days or less, have a fair value equal to book value.

Certificates of deposit: The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar maturities.

Advances from borrowers for taxes and insurance: The book value approximates fair value.

Advances from FHLB: The fair value is estimated by discounting the future cash flows using interest rates currently offered by the FHLB for advances with similar maturities.

Off-balance sheet instruments: The fair value of a loan commitment and a letter of credit is determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. Neither the fees earned during the year on these instruments nor their value at year end are significant to the Company's consolidated financial position.

DIRECTORS AND OFFICERS

LEXINGTON B & L FINANCIAL CORP.

OFFICERS:

E. Steva Vialle
Chief Executive Officer

William J. Huhmann
President

Mark D. Summerlin
Senior Vice-President
and Secretary

Terry L. Thompson
Vice-President

Carrie M. Bollmeyer
Chief Financial Officer

B & L BANK

OFFICERS:

E. Steva Vialle
Chief Executive Officer

Mark D. Summerlin
President

Terry L. Thompson
Executive Vice-President
and Secretary

Kathryn M. Swafford
Senior Vice-President and Treasurer

Carrie M. Bollmeyer
Vice President and
Chief Financial Officer

Margie D'Aurelio
Vice President

DIRECTORS:

Erwin Oetting, Jr.
Chairman of the Board

E. Steva Vialle
Chief Executive Officer

William J. Huhmann
President

Steve Oliaro
President
Baker Memorials, Inc.

Norman Vialle
Retired Businessman

DIRECTORS:

Erwin Oetting, Jr.
Chairman of the Board

E. Steva Vialle
Chief Executive Officer

Mark D. Summerlin
President

Terry L. Thompson
Executive Vice-President
and Secretary

Steve Oliaro
President
Baker Memorials, Inc.

Norman Vialle
Retired Businessman

Robert D. Lueck
Businessman

Craig Williams
Midwest Title Company

B & L BANK – Cont’d

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Vice President

Betty Smith
Assistant Vice-President

Betty Teter
Assistant Vice-President

Elsie Binder
Assistant Vice-President

Joanne Owens
Branch Manager

Tony Nierman
Branch Manager

Sarah Jane Linville
Assistant Branch Manager

ADVISORY DIRECTORS:

Alfred Block
Farmer

Norman Rasa
Businessman/Farmer

William C. LaHue, M.D.
Medical Doctor

Christine Gibson
Pharmacist

Tom Hill
Businessman

Brent Dowell
Businessman

CORPORATE INFORMATION

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Giorza & Hamilton, LLC
Lexington, Missouri

SPECIAL COUNSEL

Kilpatrick Stockton LLP
Washington, D.C.

STATE OF INCORPORATION

Missouri

STOCKHOLDER INFORMATION

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at the main office of B & L Bank, 205 S. 13th Street, Lexington, Missouri, on Tuesday, January 19, 2010 at 10:00 a.m., local time

SHAREHOLDER AND GENERAL INQUIRIES

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