

**2010 Annual Report**

**Lexington B & L Financial Corp.**

**Lexington B & L Financial Corp.**

**2010 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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

*MHC Certified Public Accountants, LLC*

Mexico, Missouri  
December 28, 2010

**Lexington B & L Financial Corp.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 2,393,363	\$ 2,018,462
Interest-bearing deposits	3,988,400	3,021,217
Federal funds sold	<u>7,883,000</u>	<u>2,940,000</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>14,264,763</b>	<b>7,979,679</b>
Investment securities		
Available-for-sale, at fair value	19,894,779	17,779,885
Held-to-maturity (fair value of \$3,740,441 and \$2,895,501, respectively)	3,579,112	2,785,254
Loans held for sale	382,373	547,695
Loans receivable	93,356,096	95,142,556
Accrued interest receivable	777,183	848,745
Premises and equipment	3,618,629	3,755,177
Real estate owned	37,000	21,000
Investment required by law--Stock in FHLB, at cost	382,000	416,400
Cost in excess of net assets acquired	789,370	789,370
Other assets	<u>2,198,911</u>	<u>1,639,377</u>
<b>TOTAL ASSETS</b>	<b><u>\$139,280,216</u></b>	<b><u>\$131,705,138</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits	\$118,269,884	\$111,324,437
Advances from borrowers for property taxes and insurance	1,024,997	380,419
Advances from FHLB	3,500,000	3,857,142
Note payable	---	25,000
Other liabilities	<u>892,726</u>	<u>931,558</u>
<b>TOTAL LIABILITIES</b>	<b>123,687,607</b>	<b>116,518,556</b>
<b>Stockholders' Equity</b>		
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	15,015,517	14,485,723
Accumulated other comprehensive loss	473,255	375,564
Treasury stock at cost—723,707 and 712,212 shares, respectively	<u>(12,647,603)</u>	<u>(12,426,145)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>15,592,609</u></b>	<b><u>15,186,582</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$139,280,216</u></b>	<b><u>\$131,705,138</u></b>

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
<b>BALANCE AT SEPTEMBER 30, 2007</b>	\$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)
<b>BALANCE AT SEPTEMBER 30, 2008</b>	12,650	12,738,790	14,086,767	(41,551)	(11,307,709)	15,488,947
Net income	---	---	748,062	---	---	748,062
Other comprehensive income, 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)
<b>BALANCE AT SEPTEMBER 30, 2009</b>	12,650	12,738,790	14,485,723	375,564	(12,426,145)	15,186,582
Net income	---	---	694,715	---	---	694,715
Other comprehensive loss, net of tax of \$50,400	---	---	---	97,691	---	97,691
Repurchase of common stock	---	---	---	---	(221,458)	(221,458)
Dividends paid (\$ .30 per share)	---	---	(164,921)	---	---	(164,920)
<b>BALANCE AT SEPTEMBER 30, 2010</b>	<u>\$12,650</u>	<u>\$12,738,790</u>	<u>\$15,015,517</u>	<u>\$ 473,255</u>	<u>\$(12,647,603)</u>	<u>\$15,592,609</u>

Comprehensive Income

	Year Ended September 30		
	2010	2009	2008
Net Income	\$ 694,715	\$748,062	\$ 826,965
Change in unrealized gains on securities available-for-sale, net of taxes of \$50,400, \$214,800 and \$30,200, respectively	97,691	417,115	58,665
Less reclassification adjustment for gains included in net income, net of tax of \$6,881, \$1,946 and \$7,393, respectively	<u>13,358</u>	<u>3,777</u>	<u>14,352</u>
Comprehensive Net Income	<u>\$805,764</u>	<u>\$1,168,954</u>	<u>\$899,982</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended September 30		
	2010	2009	2008
<b>Interest Income</b>			
Mortgage loans	\$4,079,404	\$4,528,993	\$5,057,510
Other loans	1,481,155	1,541,826	1,823,299
Investment securities and interest-bearing deposits	793,189	954,651	1,165,453
Federal funds sold	15,033	3,740	69,366
Total Interest Income	6,368,781	7,029,210	8,115,628
<b>Interest Expense</b>			
Deposits	2,079,223	2,821,427	4,153,394
Advances from FHLB	191,455	204,215	229,648
Notes payable	413	391	16,069
Total Interest Expense	2,271,091	3,026,033	4,399,111
Net Interest Income	4,097,690	4,003,177	3,716,517
<b>Provision for Loan Losses</b>	475,000	240,000	67,288
Net Interest Income After Provision for Loan Losses	3,622,690	3,763,177	3,649,229
<b>Noninterest Income</b>			
Service charges and other fees	625,663	623,487	605,757
Commissions, net	10,637	14,964	14,957
Net income (loss) from repossessed assets	7,317	(27,784)	3,834
Gain on sale of investments	12,414	399	---
Gain on charitable donation of bank building	26,305	---	---
Other	54,900	62,875	63,040
Total Noninterest Income	737,236	673,941	687,588
<b>Noninterest Expense</b>			
Employee compensation and benefits	1,797,435	1,753,660	1,806,429
Occupancy costs	360,674	361,902	398,704
Advertising	50,864	50,617	72,116
Data processing	390,354	373,002	364,245
Federal insurance premium	193,006	272,812	15,400
Professional and consulting fees	92,583	77,502	68,519
Contributions	39,125	1,125	26,925
Other	400,670	423,986	397,514
Total Noninterest Expense	3,324,711	3,314,606	3,149,852
<b>INCOME BEFORE INCOME TAXES</b>	1,035,215	1,122,512	1,186,965
<b>Income Taxes</b>	340,500	374,450	360,000
<b>NET INCOME</b>	<u>\$ 694,715</u>	<u>\$ 748,062</u>	<u>\$ 826,965</u>
<b>Basic Income per share</b>	<u>\$1.27</u>	<u>\$1.33</u>	<u>\$1.36</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30		
	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 694,715	\$ 748,062	\$ 826,965
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	171,596	181,786	221,308
Amortization of premiums and discounts	69,616	60,142	33,287
Amortization of deferred loan fees	40,128	32,738	26,183
Provision for salary continuation plan costs	36,294	37,121	37,878
Salary continuation plan payout	(48,980)	(48,980)	(47,147)
(Gain) loss on sales of foreclosed real estate	(11,565)	53,412	(10,430)
Gain on available-for-sale securities	(12,414)	---	---
Provisions for loan losses	475,000	240,000	67,288
Provision for deferred income taxes (benefit)	(82,300)	(58,400)	6,700
Originations of loans held for sale	(2,658,748)	(3,824,095)	(2,611,858)
Proceeds from sale of loans held for sale	2,824,070	3,549,083	2,503,435
Gift of bank building to nonprofit organization	37,500	---	---
Gain on disposal of premises and equipment	(26,303)	---	---
Changes to assets and liabilities increasing (decreasing) cash flows			
Accrued interest receivable	71,562	156,590	163,563
Other assets	(535,744)	6,693	(36,708)
Other liabilities	(26,145)	64,459	(73,130)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,018,282</b>	<b>1,198,611</b>	<b>1,107,334</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from maturities/sales of securities available-for-sale	8,463,219	5,791,153	9,713,758
Proceeds from maturities/calls of securities held-to-maturity	215,000	610,000	980,000
Purchase of FHLB stock	---	---	(5,000)
Proceeds from sale of FHLB stock	34,400	---	127,200
Purchase of MIB Stock	---	(42,500)	---
Loans originated, net of repayments	1,247,237	612,644	2,062,889
Proceeds from sales of foreclosed real estate	20,000	175,730	9,781
Purchase of securities available-for-sale	(10,486,081)	(7,446,458)	(13,022,660)
Purchase of securities held-to-maturity	(1,010,000)	(800,000)	(875,846)
Purchase of loans	---	(412,881)	---
Expenditures on real estate owned	( 341)	---	(2,363)
Purchase of premises and equipment	(38,136)	(8,086)	(25,815)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,554,702)</b>	<b>(1,520,398)</b>	<b>(1,038,056)</b>



**Lexington B & L Financial Corp.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010, 2009 and 2008**

**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 (“US 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. Interest income is accrued based on the unpaid principal. 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. Residential mortgage loans and other consumer loans are generally charged off, or a specific valuation allowance is set up, when the loans become past due 180 days.

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. The charge off policy on non-homogeneous loans is to recognize loan losses as they become apparent or if they reach 180 days past due.

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 collectability 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 collectability 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.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

**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.

**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.

**Troubled Debt Restructurings:** A loan is classified as a troubled debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. This usually includes a modification of loan terms such as a reduction of the rate to below-market terms, adding past due interest to the loan balance or extending the maturity date and possibly a partial forgiveness of debt. A loan classified as a troubled debt restructuring will retain such classification until the borrower demonstrates the ability to pay under the terms of the restructured note through a sustained period of repayment performance, which is generally one year. Interest income on restructured loans is accrued at the reduced rate once the borrower demonstrates the ability to pay under the terms of the restructured note through a sustained period of repayment performance, which is generally three months.

**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, 2010, 2009 and 2008.

**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. Income tax expense is the tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

**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.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

**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 collectability 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.

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.

## NOTE B—INVESTMENT SECURITIES

	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
<b>September 30, 2010:</b>				
Available-for-sale				
U.S. Government and Federal agency obligations	\$ 8,598,901	\$ 163,840	\$ ---	\$ 8,762,741
Mortgage-backed securities	<u>10,578,823</u>	<u>554,979</u>	<u>(1,764)</u>	<u>11,132,038</u>
	<u>\$19,177,724</u>	<u>\$718,819</u>	<u>\$ (1,764)</u>	<u>\$19,894,779</u>
Held-to-maturity				
State and local obligations	<u>\$ 3,579,112</u>	<u>\$161,329</u>	<u>\$ ---</u>	<u>\$ 3,740,441</u>
<b>September 30, 2009:</b>				
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>\$ (18,115)</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>

**NOTE B—INVESTMENT SECURITIES – Cont’d**

The scheduled contractual maturities of debt securities at September 30, 2010, 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	\$ 970,000	\$ 973,085	\$ 2,116,658	\$ 2,229,178
After one year through five years	689,488	725,955	7,297,620	7,570,743
After five years through ten years	1,170,036	1,250,849	8,306,796	8,566,385
After ten years	<u>749,588</u>	<u>790,552</u>	<u>1,456,650</u>	<u>1,528,473</u>
	<u>\$3,579,112</u>	<u>\$3,740,441</u>	<u>\$19,177,724</u>	<u>\$19,894,779</u>

Held-to-maturity securities were called for redemption for total proceeds of \$215,000, \$610,000 and \$980,000 resulting in no gross realized gain or losses in 2010 or 2009 or 2008, respectively.

Available-for-sale securities were called for redemption for total proceeds of \$8,463,219, \$5,791,153 and \$9,713,758 resulting in gross realized gains of \$12,414 in 2010 and \$399 in 2009 and no gross realized gains or losses in 2008.

Investment securities were pledged to secure deposits as required or permitted by law, with an amortized cost of \$14,677,708 and \$15,940,610 and fair value of \$15,311,568 and \$16,506,201 at September 30, 2010 and 2009, respectively

Provided below is a summary of available-for-sale securities which were in an unrealized loss position at September 30, 2010. Approximately \$369 or 21% 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	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Mortgage-backed securities	<u>392,596</u>	<u>1,395</u>	<u>12,844</u>	<u>369</u>	<u>405,440</u>	<u>1,764</u>
	<u>\$392,596</u>	<u>\$1,395</u>	<u>\$12,844</u>	<u>\$369</u>	<u>\$405,440</u>	<u>\$1,764</u>

## NOTE C--LOANS RECEIVABLE

Loans receivable consist of the following at September 30:

	<u>2010</u>	<u>2009</u>
Mortgage loans:		
One- to four-family residences	\$52,119,880	\$52,007,783
Commercial and Multi-family residential	12,097,226	12,678,220
Construction	870,134	2,389,790
Land	<u>5,296,369</u>	<u>5,538,818</u>
	70,383,609	72,614,611
Commercial	7,646,808	7,934,418
Agricultural	12,221,513	11,042,198
Consumer and other loans:		
Home equity	334,351	321,051
Loans on savings	1,087,215	808,990
Automobile	2,138,067	2,409,257
Overdrafts	123,660	158,944
Other	<u>868,574</u>	<u>1,069,985</u>
	<u>4,551,867</u>	<u>4,768,227</u>
	94,803,797	96,359,454
Net deferred loan-origination fees	195,218	154,169
Allowance for loan losses	<u>(1,642,919)</u>	<u>(1,371,067)</u>
	<u>\$93,356,096</u>	<u>\$95,142,556</u>

At September 30, 2010 and 2009, the Company serviced loans amounting to \$550,030 and \$1,034,027, respectively, for the benefit of others. Also, the Company had loans serviced by others amounting to \$1,550,792 and \$1,613,971 at September 30, 2010 and 2009 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:

	<u>Year ended September 30</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 900,053	\$ 621,488
New director and officer beginning loan balances at September 30, 2009	---	672,397
Originations	302,159	378,695
Payments	<u>(180,503)</u>	<u>(772,527)</u>
<b>BALANCE, END OF YEAR</b>	<u><b>\$1,021,709</b></u>	<u><b>\$ 900,053</b></u>

**NOTE C--LOANS RECEIVABLE - Cont'd**

Activity in the allowance for loan losses is as follows:

	Year ended September 30		
	2010	2009	2008
Balance, beginning of year	\$1,371,067	\$1,202,528	\$1,214,697
Provision for loan losses	475,000	240,000	67,288
Charge-offs, net of recoveries	<u>(203,148)</u>	<u>(71,461)</u>	<u>(79,457)</u>
<b>BALANCE, END OF YEAR</b>	<b><u>\$1,642,919</u></b>	<b><u>\$1,371,067</u></b>	<b><u>\$1,202,528</u></b>

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

	2010	2009
Nonaccrual loans	<u>\$7,386,873</u>	<u>\$6,600,906</u>

At September 30, 2010 and 2009 all loans 90 days or more overdue were on nonaccrual status.

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

	2010		2009	
	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	\$ 803,572	\$240,000	\$2,881,512	\$426,000
Impaired loans with no related allowance	<u>3,496,762</u>	---	<u>670,275</u>	---
	<b><u>\$4,300,334</u></b>	<b><u>\$240,000</u></b>	<b><u>\$3,551,787</u></b>	<b><u>\$426,000</u></b>

The average recorded investment in impaired loans during the year ended September 30, 2010 and 2009 was \$4,293,483 and \$3,096,836, respectively. The amount of interest included in interest income on such loans for the year ended September 30, 2010 and 2009, amounted to approximately \$480,664 and \$786,358, respectively.

On November 9, 2009, the Company modified the terms of a \$1,696,640 loan secured by residential rental property in a troubled debt restructure. Under the terms of the restructure, the interest rate on the loan was reduced from 7.25% to 6.00% for an eight-month period. As a result of the interest rate concession, a specific loan loss allowance of \$7,500 was recorded on the restructure. On July 1, 2010, the interest rate was re-priced to market rates. Since the loan has performed satisfactorily under the restructured terms it has been returned to accrual status and its unpaid principal balance of \$1,551,482 is not deemed to be impaired as of September 30, 2010.

## NOTE D--ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at September 30:

	2010	2009
Loans	\$663,247	\$737,372
Investment securities and interest bearing deposits	<u>113,936</u>	<u>111,373</u>
	<u>\$777,183</u>	<u>\$848,745</u>

## NOTE E--PREMISES AND EQUIPMENT

Premises and equipment consists of the following at September 30:

	2010	2009
Land	\$ 817,328	\$ 817,328
Building and improvements	3,773,681	3,793,052
Furniture and equipment	<u>1,001,139</u>	<u>985,804</u>
	5,592,148	5,596,184
Less accumulated depreciation and amortization	<u>1,973,519</u>	<u>1,841,007</u>
	<u>\$3,618,629</u>	<u>\$3,755,177</u>

Depreciation expense on premises and equipment for 2010, 2009 and 2008 totaled \$163,485, \$173,676 and \$213,198 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 2010 and 2009 totaled \$9,900 and \$9,900, 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:

	2010		2009	
	Amount	%	Amount	%
Noninterest-bearing	\$ 10,394,072	8.79%	\$ 11,192,615	10.05%
NOW	14,762,856	12.48	12,213,441	10.97
Money Market	8,068,468	6.82	3,875,765	3.48
Passbook savings	<u>13,948,552</u>	<u>11.79</u>	<u>14,723,926</u>	<u>13.23</u>
	47,173,948	39.88	42,005,747	37.73
Certificates of deposit:				
0.00 to 0.99%	172,612	0.15	123,726	0.11
1.00 to 1.99%	23,715,199	20.05	5,797,561	5.21
2.00 to 2.99%	38,557,239	32.60	42,268,730	37.97
3.00 to 3.99%	5,244,401	4.44	15,579,585	14.00
4.00 to 4.99%	<u>3,406,485</u>	<u>2.88</u>	<u>5,549,088</u>	<u>4.98</u>
	<u>71,095,936</u>	<u>60.12</u>	<u>69,318,690</u>	<u>62.27</u>
	<u>\$118,269,884</u>	<u>100.00%</u>	<u>\$111,324,437</u>	<u>100.00%</u>
Weighted Average Interest Rates	<u>1.65%</u>		<u>2.16%</u>	

**NOTE F--DEPOSITS - Cont'd**

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$21,124,047 and \$17,825,594 at September 30, 2010 and 2009, respectively. The Company had other time and demand deposits with a minimum denomination of \$100,000 totaling \$19,283,913 and \$13,392,563 at September 30, 2010 and 2009, 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. On July 21, 2010, the Dodd Frank Wall Street Reform and Consumer Protection Act made permanent the standard maximum deposit insurance amount of \$250,000.

The Company had deposits of approximately \$2,323,384 and \$2,316,907 for its directors and officers at September 30, 2010 and 2009, respectively.

At September 30, 2010, contractual maturities of certificate accounts are as follows:

Stated Interest Rate	2011	2012	2013	2014	2015	After
0.00 to 0.99%	\$ 172,612	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
1.00 to 1.99%	18,014,887	5,330,143	370,170	---	---	---
2.00 to 2.99%	32,471,956	2,684,570	2,211,976	667,969	255,789	264,979
3.00 to 3.99%	2,132,955	774,728	526,134	518,544	1,121,272	170,768
4.00 to 4.99%	<u>1,502,478</u>	<u>181,222</u>	<u>1,707,033</u>	<u>15,751</u>	<u>---</u>	<u>---</u>
	<u>\$54,294,888</u>	<u>\$8,970,663</u>	<u>\$4,815,313</u>	<u>\$1,202,264</u>	<u>\$1,377,061</u>	<u>\$435,747</u>

Interest expense on deposits is as follows:

	Year ended September 30		
	2010	2009	2008
Now, Money Market and Passbook savings accounts	\$ 281,200	\$ 306,378	\$ 609,659
Certificate accounts	<u>1,798,023</u>	<u>2,515,049</u>	<u>3,543,736</u>
	<u>\$2,079,223</u>	<u>\$2,821,427</u>	<u>\$4,153,395</u>

**NOTE G--ADVANCES FROM FEDERAL HOME LOAN BANK**

Advances from FHLB consist of the following at September 30:

	2010	2009
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>---</u>	<u>357,142</u>
	<u>\$3,500,000</u>	<u>\$3,857,142</u>

All FHLB advances are scheduled to mature in 2011.

## 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, 2010 and 2009 is approximately \$27,703,451 and \$28,177,689, 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, 2010 or September 30, 2009.

B & L Mortgage had a \$500,000 open line of credit with a correspondent bank. The line was opened on June 17, 2009 and expired on June 17, 2010. Advances on the line were 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 were 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, 2010 there were no open advances. During the year ended September 30, 2010, \$300,000 was advanced under this line.

## NOTE I--INCOME TAXES

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

	Year ended September 30		
	2010	2009	2008
Current	\$422,800	\$432,850	\$353,300
Deferred (benefit)	<u>(82,300)</u>	<u>(58,400)</u>	<u>6,700</u>
	<u>\$340,500</u>	<u>\$374,450</u>	<u>\$360,000</u>

The Small Business Job Protection Act of 1996 (the "Act") eliminated the percentage of taxable income bad debt deductions for thrift institutions for tax years beginning after December 31, 1995. The Act provided that bad debt reserves accumulated prior to 1988 be exempt from recapture. Under the provisions of FASB ASC 942-740-25 "Financial Services—Depository and Lending—Income Taxes", a deferred tax liability shall not be recognized for temporary differences resulting from tax bad debt reserves of U.S. savings and loan associations that arose in tax years beginning before December 31, 1987. Prior to this time, B&L accumulated tax bad debt reserves of approximately \$2,000,000. Any portion of the reserves used other than to absorb loan losses (which is not anticipated), will be subject to income tax at the current corporate rates. The estimated deferred tax liability on these reserves, which has not been recorded in the accompanying financial statements, is approximately \$740,000.

**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					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Income tax expense at statutory rate	\$351,973	34.0%	\$381,654	34.0%	\$403,568	34.0%
Increase (decrease) in taxes resulting from:						
Officers life insurance	(10,382)	(1.0)	(10,408)	(0.9)	(10,227)	(0.9)
Tax exempt income, net of related expenses	(41,417)	(4.0)	(37,744)	(3.4)	(36,990)	(3.1)
State income tax, net of federal benefit	39,600	3.8	40,194	3.6	7,524	0.6
Stock options exercised	---	---	---	---	---	---
Other, net	726	0.1	754	0.1	(3,875)	(0.3)
	<u>\$340,500</u>	<u>32.9%</u>	<u>\$374,450</u>	<u>33.4%</u>	<u>\$360,000</u>	<u>30.3%</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:

	2010	2009
Deferred tax assets		
Allowance for loan losses	\$585,400	\$484,800
Deferred compensation	153,300	158,000
Unrealized loss on available-for-sale securities	(243,800)	(193,400)
Deferred tax liabilities		
Depreciation	(13,200)	300
FHLB stock dividend	(58,400)	(58,300)
<b>NET DEFERRED TAX ASSET</b>	<u>\$423,300</u>	<u>\$391,400</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, 2010, 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, 2010, 2009 and 2008 and no amounts accrued at September 30, 2010 and 2009.

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 2005.

## 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, 2010						
B & L Bank						
Total Risk-Based Capital (to Risk Weighted Assets)	\$14,464	16.64%	≥ \$6,954	8.00%	≥ \$8,692	10.00%
Tier 1 Capital (to Risk Weighted Assets)	13,374	15.39	≥ 3,477	4.00	≥ 5,215	6.00
Tier 1 Capital (to Adjusted Assets)	13,374	9.72	≥ 4,129	3.00	≥ 6,881	5.00
Tangible Capital (to Adjusted Assets)	13,374	9.72	≥ 2,064	1.50	N/A	N/A
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)	11,948	9.71	≥ 1,957	1.50	N/A	N/A

Management believes that as of September 30, 2010 and 2009, 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 \$222,000, \$169,000 and \$240,000 was recognized for the years ended September 30, 2010, 2009 and 2008, 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, 2010, 2009 and 2008, was \$36,294, \$37,121 and \$37,878, 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. As of March 31, 2006, all 101,200 shares originally allocated to the ESOP had been released to its participants.

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.

## NOTE L--INCOME PER SHARE

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

	Year ended September 30		
	2010	2009	2008
Weighted average common shares outstanding	<u>548,671</u>	<u>565,059</u>	<u>610,044</u>

There were no potentially dilutive securities outstanding as of September 30, 2010, 2009 or 2008.

## 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

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

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.

At September 30, 2010 and 2009, the Company was committed to originate loans as follows:

	September 30, 2010			September 30, 2009		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Mortgage	\$1,278,560	\$ 881,498	\$2,160,058	\$1,934,826	\$507,596	\$2,442,422
Agricultural	929,030	251,166	1,180,196	1,281,178	271,934	1,553,112
Commercial	212,346	345,948	558,294	344,622	305,034	649,656
Consumer and other loans	48,732	553,988	602,720	71,622	572,373	643,995
	<u>\$2,468,668</u>	<u>\$2,032,600</u>	<u>\$4,501,268</u>	<u>\$3,632,248</u>	<u>\$1,656,937</u>	<u>\$5,289,185</u>

Fixed loan commitments at September 30, 2010 and 2009, have terms of nine years or less with interest rates ranging from 2.00% to 12.00% and 3.00% to 12.00% respectively. The Company also has outstanding letters of credit in the amount of \$900 and \$3,600, respectively, at September 30, 2010 and 2009.

At September 30, 2010 and 2009, the Company had amounts on deposit at banks and federal agencies in excess of federally insured limits of approximately \$3,889,061 and \$1,649,447, 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, 2010, 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 US 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, 2010. 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.

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

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.

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.

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

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

	<b>Fair Value Measurements at September 30, 2010 Using</b>			<b>Total</b>
	<b>Quoted Prices in Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Available-for-sale				
Federal agency obligations	\$ ---	\$ 8,762,741	\$ ---	\$ 8,762,741
Mortgage-backed securities	---	11,132,038	---	11,132,038
Total securities available-for-sale	---	19,894,779	---	19,894,779
Loans held for sale	---	382,373	---	382,373
Total assets at fair value	\$ ---	\$20,277,152	\$ ---	\$20,277,152

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

	<b>Fair Value Measurements at September 30, 2009 Using</b>			
	<b>Quoted Prices in Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Available-for-sale</b>				
Federal agency obligations	\$ ---	\$ 4,972,435	\$ ---	\$ 4,972,435
Mortgage-backed securities	---	<u>12,807,450</u>	---	<u>12,807,450</u>
Total securities available-for-sale	---	17,779,885	---	17,779,885
Loans held for sale	---	<u>547,965</u>	---	<u>547,965</u>
<b>Total assets at fair value</b>	<u>\$ ---</u>	<u>\$18,327,850</u>	<u>\$ ---</u>	<u>\$18,327,850</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, 2010 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. In accordance with the provisions of FASB ASC 310-10-15—Loan Impairment, impaired loans with carrying amounts of \$803,572 and \$2,881,512 are reported net of specific valuation allowances of \$240,000 and \$426,000 at September 30, 2010 and 2009, respectively.

**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. Real estate owned consists primarily of residential real property and land. Upon foreclosure these assets were re-measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset.

**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, 2010 and 2009.

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

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

<b>Fair Value Measurements at September 30, 2010 Using</b>					
Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)	
Impaired loans	\$ ---	\$ ---	\$563,572	\$563,572	\$ ---
Real estate owned	---	---	37,000	37,000	---
Costs in excess of net assets acquired	---	---	<u>789,370</u>	<u>789,370</u>	---
	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$1,389,942</u>	<u>\$1,389,942</u>	<u>\$ ---</u>

<b>Fair Value Measurements at September 30, 2009 Using</b>					
Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)	
Impaired loans	\$ ---	\$ ---	\$2,455,512	\$2,455,512	\$ ---
Real estate owned	---	---	21,000	21,000	(40,000)
Costs in excess of net assets acquired	---	---	<u>789,370</u>	<u>789,370</u>	---
	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$3,265,882</u>	<u>\$3,265,882</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.

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in Thousands)				
<b>ASSETS</b>				
Cash	\$ 2,393	\$ 2,393	\$ 2,018	\$ 2,018
Interest-bearing deposits	3,988	3,988	3,021	3,021
Federal funds sold	7,883	7,883	2,940	2,940
Investment securities available-for-sale	19,895	19,895	17,780	17,780
Investment securities held-to-maturity	3,579	3,740	2,785	2,896
Stock in FHLB	382	382	416	416
Loans held for sale	382	382	548	548
Loans receivable	93,356	93,825	95,143	95,686
Accrued interest receivable	777	777	849	849
<b>LIABILITIES</b>				
Transaction accounts	47,174	47,174	42,006	42,006
Certificates of deposit	71,096	71,647	69,319	69,614
Advances from borrowers for taxes and insurance	1,025	1,025	380	380
Advances from FHLB	3,500	3,663	3,857	3,969
Notes payable	---	---	25	25

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.

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

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 values at year end are significant to the Company's consolidated financial position.

## NOTE O--SUBSEQUENT EVENTS

In November 2010, the Board of Directors approved the dissolution of subsidiary B & L Mortgage, Inc. ("MTG"). All assets of MTG were transferred to the remaining subsidiary B & L Bank. Upon the dissolution of MTG, employees of MTG became employees of B & L Bank. The carrying amounts of assets and liabilities of MTG as of September 30, 2010 were as follows:

### ASSETS

Loans available for sale	\$382,373
Accrued interest receivable	612
Equipment, net of depreciation	24
Deferred tax benefit	<u>5,334</u>
<b>TOTAL ASSETS</b>	<b>\$388,343</b>

### LIABILITIES

Overdraft at B & L Bank	\$ 53
Note payable at B & L Bank	312,000
Payroll and other liabilities	<u>2,526</u>
<b>TOTAL LIABILITIES</b>	<b>\$314,579</b>

MTG incurred a net loss of \$850 for the year ended September 30, 2010. The Company anticipates no significant costs will be incurred to dissolve MTG.

Management has evaluated the events and transactions that occurred after the financial statement date of September 30, 2010 through December 28, 2010, the date the consolidated financial statements were available to be issued.

## **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:**

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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**

**OFFICERS:**

Kirk Craven  
Vice President

Betty Smith  
Assistant Vice-President

Joanne Owens  
Branch Manager

Tony Nierman  
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**

**OFFICES**

**LEXINGTON B & L FINANCIAL CORP.  
AND B & L BANK**

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Lexington, Missouri 64067  
Telephone (660) 259-2247

**BRANCH LOCATIONS**

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Wellington, Missouri 64097  
Telephone (816) 934-2641

228 South 2<sup>nd</sup> Street  
Odessa, Missouri 64076  
Telephone (816) 633-4106

**INDEPENDENT AUDITORS**

MHC Certified Public Accountants, LLC.  
Mexico, Missouri

**GENERAL COUNSEL**

Aull, Sherman, Worthington,  
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. 13<sup>th</sup> Street, Lexington, Missouri, on Wednesday January 19, 2011 at 10:00 a.m., local time.

### **SHAREHOLDER AND GENERAL INQUIRIES**

E. Steva Vialle  
B & L Bank  
205 S. 13<sup>th</sup> Street  
Lexington, Missouri 64067  
(660) 259-2247

### **REGISTRAR AND TRANSFER AGENT**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, New Jersey 07016-3572  
(800) 866-1340