

2014 Annual Report

Lexington B & L Financial Corp.

Lexington B & L Financial Corp.

2014 ANNUAL REPORT

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT 1

FINANCIAL STATEMENTS

Consolidated Statements of Financial Condition3

Consolidated Statements of Stockholders' Equity and Comprehensive Income.....4

Consolidated Statements of Income5

Consolidated Statements of Cash Flows.....6

Notes to Consolidated Financial Statements8

OTHER INFORMATION

Directors and Officers..... 32

Corporate Information..... 33

Stockholder Information 34

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Lexington B & L Financial Corp. and Subsidiary, which comprise the consolidated statements of financial condition as of September 30, 2014 and 2013, 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, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Independent Auditors' Report – Cont'd

Opinion

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the consolidated financial position of Lexington B & L Financial Corp. and Subsidiary as of September 30, 2014 and 2013, and the consolidated results of operations and their cash flows for the each of the three years ended September 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

MHC

Mexico, Missouri
December 17, 2014

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30	
	2014	2013
ASSETS		
Cash and due from banks	\$ 3,808,012	\$ 7,285,026
Interest-bearing deposits	<u>5,785,565</u>	<u>6,070,332</u>
TOTAL CASH AND CASH EQUIVALENTS	9,593,577	13,355,358
Investment securities		
Available-for-sale, at fair value	32,222,772	31,078,228
Held-to-maturity - fair value of \$7,017,707 and \$6,676,275, respectively	6,935,137	6,718,049
Loans held for sale	184,000	275,155
Loans, net of allowance for loan losses of \$1,591,000 and \$1,828,501, respectively	65,991,477	70,434,301
Accrued interest receivable	491,592	518,388
Premises and equipment	3,136,412	3,272,618
Real estate owned, net of valuation allowance of \$257,500 and \$65,000, respectively	1,160,158	1,398,190
Restricted investment - Stock in FHLB, at cost	151,500	181,400
Cost in excess of net assets acquired	789,370	789,370
Other assets	<u>2,147,409</u>	<u>2,186,195</u>
TOTAL ASSETS	<u>\$122,803,404</u>	<u>\$130,207,252</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits	\$106,154,767	\$113,592,376
Advances from borrowers for property taxes and insurance	423,313	449,707
Other liabilities	<u>833,412</u>	<u>1,315,216</u>
TOTAL LIABILITIES	107,411,492	115,357,299
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	15,411,072	14,994,634
Accumulated other comprehensive income	(101,061)	(226,830)
Treasury stock at cost - 725,534 and 725,517 shares, respectively	<u>(12,669,539)</u>	<u>(12,669,291)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>15,391,912</u>	<u>14,849,953</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$122,803,404</u>	<u>\$130,207,252</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, 2011	\$12,650	\$12,738,790	\$15,520,541	\$430,012	\$(12,649,744)	\$16,052,249
Net loss	---	---	(932,680)	---	---	(932,680)
Other comprehensive loss, net of tax benefit of \$56,300	---	---	---	(109,369)	---	(109,369)
Repurchase of common stock	---	---	---	---	(1,200)	(1,200)
Dividends paid (\$0.25 per share)	---	---	(135,269)	---	---	(135,269)
BALANCE AT SEPTEMBER 30, 2012	12,650	12,738,790	14,452,592	320,643	(12,650,944)	14,873,731
Net income	---	---	623,068	---	---	623,068
Other comprehensive loss, net of tax benefit of \$282,100	---	---	---	(547,473)	---	(547,473)
Repurchase of common stock	---	---	---	---	(18,347)	(18,347)
Dividends paid (\$0.15 per share)	---	---	(81,026)	---	---	(81,026)
BALANCE AT SEPTEMBER 30, 2013	12,650	12,738,790	14,994,634	(226,830)	(12,669,291)	14,849,953
Net income	---	---	497,359	---	---	497,359
Other comprehensive income, net of tax of \$64,800	---	---	---	125,769	---	125,769
Repurchase of common stock	---	---	---	---	(248)	(248)
Dividends paid (\$0.15 per share)	---	---	(80,921)	---	---	(80,921)
BALANCE AT SEPTEMBER 30, 2014	<u>\$12,650</u>	<u>\$12,738,790</u>	<u>\$15,411,072</u>	<u>\$(101,061)</u>	<u>\$(12,669,539)</u>	<u>\$15,391,912</u>

Comprehensive Income

	Year Ended September 30		
	2014	2013	2012
Net Income (Loss)	\$497,359	\$623,068	\$(932,680)
Change in unrealized gains (loss) on securities available-for-sale, net of taxes (benefit) of \$64,800, \$(282,100) and \$(56,300), respectively	125,769	(547,473)	(109,369)
Reclassification adjustment for gains included in net income, net of tax of \$1,803, \$38,803 and \$62,708, respectively	3,499	75,322	121,729
Comprehensive Net Income (Loss)	<u>\$626,627</u>	<u>\$150,917</u>	<u>\$(920,320)</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended September 30		
	2014	2013	2012
Interest Income			
Mortgage loans	\$2,217,471	\$2,613,825	\$3,070,751
Other loans	700,954	916,442	1,111,827
Investment securities and interest-bearing deposits	<u>859,296</u>	<u>702,130</u>	<u>780,087</u>
Total Interest Income	3,777,721	4,232,397	4,962,665
Interest Expense on Deposits	<u>424,112</u>	<u>633,070</u>	<u>1,178,084</u>
Net Interest Income	3,353,609	3,599,327	3,784,581
Provision for (Release of) Allowance for Loan Losses	<u>(184,400)</u>	<u>184,521</u>	<u>2,590,500</u>
Net Interest Income After Provision for (Release of) Allowance for Loan Losses	3,538,009	3,414,806	1,194,081
Noninterest Income			
Service charges and other fees	449,350	495,188	504,623
Commissions, net	3,352	4,092	4,750
Net income (loss) from repossessed assets	9,219	102,779	(43,407)
Impairment loss on real estate owned	(200,000)	---	(162,000)
Net gains on sale of investments	11,083	30,823	85,180
Net gain (loss) on disposal of equipment	---	51,662	(5,385)
Other	<u>57,969</u>	<u>59,118</u>	<u>52,281</u>
Total Noninterest Income	330,973	743,662	436,042
Noninterest Expense			
Employee compensation and benefits	1,884,211	1,767,154	1,799,393
Occupancy costs	319,117	322,391	312,100
Advertising	35,798	35,044	43,118
Data processing	416,198	445,615	431,073
Federal insurance premium	107,764	124,225	127,546
Professional and consulting fees	97,226	122,406	87,928
Contributions	5,200	55,175	100
Other	<u>305,309</u>	<u>397,490</u>	<u>379,545</u>
Total Noninterest Expense	3,170,823	3,269,500	3,180,803
INCOME (LOSS) BEFORE INCOME TAXES (BENEFIT)	698,159	888,968	(1,550,680)
Income Taxes (Benefit)	<u>200,800</u>	<u>265,900</u>	<u>(618,000)</u>
NET INCOME (LOSS)	<u>\$ 497,359</u>	<u>\$ 623,068</u>	<u>\$ (932,680)</u>
Basic Income (Loss) per share	<u>\$0.92</u>	<u>\$1.15</u>	<u>\$(1.72)</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 497,359	\$ 623,068	\$ (932,680)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	144,317	148,693	147,466
Amortization of premiums and discounts	512,102	591,225	314,431
Amortization of deferred loan fees	84,000	86,107	112,267
Provision for salary continuation plan costs	32,147	33,324	34,402
Salary continuation plan payout	(48,980)	(48,980)	(48,980)
(Gain) loss on sales of foreclosed real estate	(35,311)	(124,827)	31,049
(Gain) loss on available-for-sale and held to maturity securities	(11,084)	(30,823)	(84,683)
Provision for (release of) allowance for loan losses	(184,400)	184,521	2,590,500
Provision for impairment loss on foreclosed real estate	200,000	---	162,000
Provision for deferred income taxes (benefit)	10,500	134,700	(107,800)
Originations of loans held for sale	(1,113,503)	(2,331,172)	(1,897,515)
Proceeds from sale of loans held for sale	1,204,658	2,877,311	1,586,222
Gift of bank building to nonprofit organization	---	55,000	---
(Gain) loss on disposal of premises and equipment	---	(51,662)	5,385
Changes to assets and liabilities increasing (decreasing) cash flows:			
Accrued interest receivable	26,796	107,057	82,489
Other assets	(34,125)	319,321	85,697
Other liabilities	(475,471)	861,277	(1,100,049)
NET CASH PROVIDED BY OPERATING ACTIVITIES	809,005	3,434,140	980,201
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of securities available-for-sale	5,665,253	5,786,217	7,870,180
Proceeds from maturities/pay downs of securities available-for-sale	6,371,293	9,537,388	9,403,095
Proceeds from sales of securities held-to-maturity	803,047	---	---
Proceeds from maturities/calls of securities held-to-maturity	1,026,000	530,000	420,013
Proceeds from sale of FHLB stock	29,900	4,900	50,000
Purchase of FHLB Stock	---	---	(5,300)
Purchase of loans	(554,800)	---	---
Loans originated, net of repayments	5,142,536	6,291,890	5,697,722
Proceeds from sales of foreclosed real estate	43,750	890,464	260,120
Purchase of securities available-for-sale	(13,430,535)	(21,248,033)	(21,392,212)
Purchase of securities held-to-maturity	(2,107,139)	(2,261,886)	(1,895,093)
Expenditures on real estate owned	(14,918)	(53,828)	(17,552)
Purchase of premises and equipment	---	(26,224)	(56,582)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	2,974,387	(549,112)	334,391

Lexington B & L Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS – Cont’d

	Year ended September 30		
	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	\$(7,437,609)	\$(12,701,503)	\$ 2,855,350
Net increase (decrease) in advances from borrowers for property taxes and insurance	(26,394)	(5,225)	13,175
Payment of dividends	(80,922)	(81,026)	(135,269)
Purchase of treasury stock	<u>(248)</u>	<u>(18,347)</u>	<u>(1,200)</u>
NET CASH PROVIDED BY (USED IN)			
FINANCING ACTIVITIES	<u>(7,545,173)</u>	<u>(12,806,101)</u>	<u>2,732,056</u>
NET INCREASE (DECREASE) IN CASH	<u>(3,761,781)</u>	<u>(9,921,073)</u>	<u>4,046,648</u>
Cash and cash equivalents, beginning of year	<u>13,355,358</u>	<u>23,276,431</u>	<u>19,229,783</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 9,593,577</u></u>	<u><u>\$13,355,358</u></u>	<u><u>\$23,276,431</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for			
Interest	<u>\$ 426,025</u>	<u>\$ 637,279</u>	<u>\$ 1,191,528</u>
Income taxes	<u>\$ 143,200</u>	<u>\$ 110,000</u>	<u>\$ 23,660</u>
Noncash investing and financing activities are as follows:			
Loans originated to finance the sale of foreclosed real estate	<u>\$ 178,750</u>	<u>\$ 186,500</u>	<u>\$ 240,000</u>
Loans transferred to foreclosed real estate during the year	<u>\$ 169,238</u>	<u>\$ 1,052,996</u>	<u>\$ 1,287,476</u>
Total unrealized gain on securities available-for-sale	<u>\$ 190,569</u>	<u>\$ (829,574)</u>	<u>\$ (165,669)</u>

See accompanying notes to consolidated financial statements.

Lexington B & L Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014, 2013 and 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying reporting policies and practices of the Lexington B & L Financial Corp. ("Company") and its subsidiary conform to generally accepted accounting principles accepted in the United States of America ("US GAAP") and to prevailing practices within the banking industry. 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"). On March 22, 2013 B&L converted from a federal thrift institution, regulated by the Office of the Comptroller of the Currency, to a Missouri state-chartered commercial bank. Following the conversion of B&L, the Company converted to a bank holding company and is now regulated by the Federal Reserve Board.

The Company, through its subsidiary, B&L, 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 subsidiary, B&L. 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.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Statements of Cash Flows: For purposes of the cash flows, cash and cash equivalents includes, cash on hand, 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.

Investment Securities: Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted investment in Federal Home Loan Bank (“FHLB”): Stock in the FHLB is stated at cost. 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 the Company and are generally committed for sale at the time of origination. The Company 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.

Loans Receivable: Loan receivables 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, *Receivables*. Pursuant to the provisions of FASB ASC 310, 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. In recent years, direct origination costs have exceeded origination fees resulting in a net deferred cost. Effective January 1, 2014 the deferral of loan fee income was discontinued.

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.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

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 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and FASB ASC 310, *Receivables*, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. 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-family 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.

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.

Bank owned life insurance: The Company purchased single-premium life insurance on certain employees of the Company. Appreciation in value of the insurance policies is classified in noninterest income.

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.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

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 subsidiary 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, 2014, 2013 and 2012.

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.

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 County, 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.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont'd

Fair value measurements: The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurements and Disclosures*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Net Income (Loss) Per Share: Basic income (loss) per share is based upon the weighted average number of common shares outstanding during the periods presented.

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
September 30, 2014:				
Available-for-sale				
U.S. Government and Federal agency obligations	\$ 6,960,329	\$ 39,358	\$(116,936)	\$ 6,882,751
Mortgage-backed securities	<u>25,415,604</u>	<u>159,632</u>	<u>(235,215)</u>	<u>25,340,021</u>
	<u>\$32,375,933</u>	<u>\$198,990</u>	<u>\$(352,151)</u>	<u>\$32,222,772</u>
Held-to-maturity				
State and local obligations	<u>\$ 6,935,137</u>	<u>\$112,338</u>	<u>\$(29,768)</u>	<u>\$ 7,017,707</u>
September 30, 2013:				
Available-for-sale				
U.S. Government and Federal agency obligations	\$ 7,353,904	\$ 52,974	\$(189,586)	\$ 7,217,292
Mortgage-backed securities	<u>24,068,055</u>	<u>174,044</u>	<u>(381,163)</u>	<u>23,860,936</u>
	<u>\$31,421,959</u>	<u>\$227,018</u>	<u>\$(570,749)</u>	<u>\$31,078,228</u>
Held-to-maturity				
State and local obligations	<u>\$ 6,718,049</u>	<u>\$ 87,188</u>	<u>\$(128,962)</u>	<u>\$ 6,676,275</u>

At September 30, 2014, available-for-sale securities in the U.S. Government and Federal agency obligations category included Federal Home Loan Bank, Fannie Mae and Freddie Mac bonds as well as Small Business Administration loan pools. Available-for-sale securities in the Mortgage-backed securities category included Ginnie Mae, Fannie Mae and Freddie Mac mortgaged-backed securities and collateralized mortgage obligations.

The scheduled contractual maturities of debt securities at September 30, 2014, 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.

NOTE B--INVESTMENT SECURITIES – Cont'd

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing:				
One year or less	\$ 385,722	\$ 386,305	\$ 4,864,562	\$ 4,858,729
After one year through five years	1,942,138	1,977,335	13,328,414	13,289,980
After five years through ten years	2,409,424	2,445,699	10,289,619	10,215,714
After ten years	<u>2,197,853</u>	<u>2,208,368</u>	<u>3,893,338</u>	<u>3,858,349</u>
	<u>\$6,935,137</u>	<u>\$7,017,707</u>	<u>\$32,375,933</u>	<u>\$32,222,772</u>

Held-to-maturity securities were called for redemption for total proceeds of \$1,026,000, \$530,000 and \$420,013 resulting in gross realized gains of \$1,399 in 2014 and \$497 in 2012 and no gross realized gains or losses in 2013. Held-to maturity securities with book values totaling \$805,402 were sold resulting in losses of \$2,355 in 2014. No held-to-maturity securities were sold in 2013 or 2012.

Available-for-sale securities were sold for total proceeds of \$3,188,847, \$2,521,196 and \$5,519,454, resulting in gross realized gains of \$34,995, \$66,663 and \$110,350 in 2014, 2013 and 2012, respectively. Available-for-sale securities with book values totaling \$2,499,362, \$3,300,860 and \$2,376,393 were sold resulting in a losses of \$22,956, \$35,840 and \$25,667 in 2014, 2013 and 2012, respectively.

Investment securities were pledged to secure deposits as required or permitted by law, with an amortized cost of \$9,433,906 and \$7,644,486 and fair value of \$9,377,706 and \$7,598,343 at September 30, 2014 and 2013, respectively.

Provided below is a summary of available-for-sale securities which were in an unrealized loss position at September 30, 2014. Approximately \$281,193 or 80% 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.

	Under One Year		One Year or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U. S. Government and Federal agency obligations	\$1,374,837	\$(15,669)	\$4,973,377	\$(101,267)	\$ 6,348,214	\$ (116,936)
Mortgage-backed securities	<u>6,956,966</u>	<u>(55,288)</u>	<u>8,783,499</u>	<u>(179,926)</u>	<u>15,740,465</u>	<u>(235,214)</u>
	<u>\$8,331,803</u>	<u>\$(70,957)</u>	<u>\$13,756,876</u>	<u>\$(281,193)</u>	<u>\$22,088,679</u>	<u>\$ (352,150)</u>

NOTE C--LOANS RECEIVABLE

Loans receivable consist of the following at September 30:

	2014	2013
Mortgage loans:		
One- to four-family residences	\$41,170,266	\$43,928,257
Commercial and Multi-family residential	8,812,453	9,894,203
Construction	813,192	666,062
Land	<u>2,154,491</u>	<u>2,382,069</u>
	52,950,402	56,870,591
Commercial	2,852,959	3,796,510
Agricultural	9,256,690	8,875,886
Consumer and other loans:		
Home equity	289,445	270,139
Loans on savings	820,465	911,682
Automobile	617,526	725,031
Overdrafts	12,707	13,128
Other	<u>639,085</u>	<u>595,435</u>
	<u>2,379,228</u>	<u>2,515,415</u>
	67,439,279	72,058,402
Net deferred loan-origination costs	143,198	204,400
Allowance for loan losses	<u>(1,591,000)</u>	<u>(1,828,501)</u>
	<u>\$65,991,477</u>	<u>\$70,434,301</u>

At September 30, 2014 and 2013, the Company had no loans serviced for the benefit of others. The Company had loans serviced by others amounting to \$645,168 and \$113,392 at September 30, 2014 and 2013, 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	
	2014	2013
Balance, beginning of year	\$ 692,402	\$ 707,206
Originations	10,000	50,489
Payments	<u>(52,450)</u>	<u>(65,293)</u>
BALANCE, END OF YEAR	<u><u>\$ 649,952</u></u>	<u><u>\$692,402</u></u>

NOTE C--LOANS RECEIVABLE - Cont'd

The following table represents the contractual aging of the recorded investment in past due loans by class of loan as of September 30:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
2014						
Mortgage Loans:						
One- to four-family residences	\$1,489,704	\$433,433	\$ 767,093	\$2,690,230	\$38,480,036	\$41,170,266
Commercial and Multi-family residential:	209,033	27,691	156,077	392,801	8,419,652	8,812,453
Construction	---	---	---	---	813,192	813,192
Land	---	---	164,787	164,787	1,989,704	2,154,491
	<u>1,698,737</u>	<u>461,124</u>	<u>1,087,957</u>	<u>3,247,818</u>	<u>49,702,584</u>	<u>52,950,402</u>
Commercial loans	78,420	37,377	198,341	314,138	2,538,821	2,852,959
Agricultural loans	83,163	---	---	83,163	9,173,527	9,256,690
Consumer and other loans:						
Home Equity	---	---	---	---	289,445	289,445
Loans on savings	7,673	---	---	7,673	812,792	820,465
Automobile	32,334	---	6,456	38,790	578,736	617,526
Overdrafts	577	202	---	779	11,928	12,707
Other	6,375	2,309	---	8,684	630,401	639,085
	<u>46,959</u>	<u>2,511</u>	<u>6,456</u>	<u>55,926</u>	<u>2,323,302</u>	<u>2,379,228</u>
	<u>\$1,907,279</u>	<u>\$501,012</u>	<u>\$1,292,754</u>	<u>\$3,701,045</u>	<u>\$63,738,234</u>	<u>\$67,439,279</u>
2013						
Mortgage Loans:						
One- to four-family residences	\$1,673,423	\$720,853	\$1,159,000	\$3,553,276	\$40,374,981	\$43,928,257
Commercial and Multi-family residential:	53,780	18,956	100,760	173,496	9,720,707	9,894,203
Construction	---	---	---	---	666,062	666,062
Land	---	124,254	180,399	304,653	2,077,416	2,382,069
	<u>1,727,203</u>	<u>864,063</u>	<u>1,440,159</u>	<u>4,031,425</u>	<u>52,839,166</u>	<u>56,870,591</u>
Commercial loans	171,030	---	240,921	411,951	3,384,559	3,796,510
Agricultural loans	92,848	---	---	92,848	8,783,038	8,875,886
Consumer and other loans:						
Home Equity	---	---	---	---	270,139	270,139
Loans on savings	7,034	---	22,779	29,813	881,869	911,682
Automobile	44,537	11,738	15,976	72,251	652,780	725,031
Overdrafts	2,894	---	---	2,894	10,234	13,128
Other	7,178	1,451	---	8,629	586,806	595,435
	<u>61,643</u>	<u>13,189</u>	<u>38,755</u>	<u>113,587</u>	<u>2,401,828</u>	<u>2,515,415</u>
	<u>\$2,052,724</u>	<u>\$877,252</u>	<u>\$1,719,835</u>	<u>\$4,649,811</u>	<u>\$67,408,591</u>	<u>\$72,058,402</u>

NOTE C--LOANS RECEIVABLE - Cont'd

The following table presents the recorded investment in nonaccrual loans by class of loans as of September 30:

	2014	2013
Mortgage loans:		
One- to four-family residences	\$1,438,497	\$1,856,039
Commercial and Multi-family residential	285,394	291,961
Land	<u>493,272</u>	<u>180,399</u>
	2,217,163	2,328,399
Commercial	298,581	328,853
Agricultural	53,752	158,146
Consumer and other loans:		
Loans on savings	---	22,780
Automobile	6,457	23,793
Other	<u>3,511</u>	<u>5,801</u>
	<u>9,968</u>	<u>52,374</u>
	<u>\$2,579,464</u>	<u>\$2,867,772</u>

The Company uses a six tier risk rating system of credit quality to grade its loans. The internally assigned grade of a loan may change during the life of the loan. The information for each of the credit quality indicators is updated on a monthly basis in conjunction with the determination of the adequacy of the allowance for loan losses. Credit quality indicators as of September 30, 2014 and 2013 are as follows:

Zero (0) Pass. Any loan which has not been assigned a classification.

Two (2) Watch. This is a category of the Pass rating. A Watch loan exhibits more risk than a Pass loan. Loans in this category have uncertainties and complexities, perhaps coupled with large loan size, that create some reservations about the loan

Three (3) Special Mention. A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Borrowers may be experiencing adverse operating trends (e.g., declining revenues or margins) or an ill proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Other possible reasons for a Special Mention rating could include adverse economic or market conditions such as interest rate increases or entry of a new competitor, management problems, pending litigation, or documentation deficiencies that could affect the credit.

The Special Mention rating is considered transitory in nature. When the factors causing the uncertainty have been clearly identified, a risk rating should be assigned commensurate with the risk characteristics and circumstances that exist.

Four (4) Substandard. A Substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

NOTE C--LOANS RECEIVABLE - Cont'd

Substandard assets have a high probability of payment default or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard assets are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants.

Five (5) Doubtful. A Doubtful loan has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Doubtful assets have high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Generally pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information

Six (6) Loss. A loan, or portion thereof, classified Loss is considered uncollectible and of such little value that its continuance on the books as an asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer the write-off of this basically worthless asset even though partial recovery may be affected in the future.

With loss assets, the underlying borrower is often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Losses are to be recorded in the period an obligation becomes uncollectible.

The following table represents the risk category of loans by class based on the most recent analysis performed as of the time periods shown of September 30:

	2 - Watch	3 - Special Mention	4 - Substandard	5 - Doubtful	6 - Loss
2014					
Mortgage Loans -					
One- to four-family residences	\$2,816,293	\$59,276	\$2,646,746	\$ ---	90,000
Commercial and Multi-family residential	239,650	---	642,199	---	150,000
Land	---	---	493,272	---	305,286
	<u>3,055,943</u>	<u>59,276</u>	<u>3,782,217</u>	<u>---</u>	<u>545,286</u>
Commercial loans	42,186	---	390,076	---	274,000
Agricultural loans	352,181	---	53,752	---	---
Consumer and other loans:					
Automobile	---	---	6,456	---	3,832
Other	---	---	3,511	---	---
	<u>---</u>	<u>---</u>	<u>9,967</u>	<u>---</u>	<u>---</u>
	<u>\$3,450,310</u>	<u>\$59,276</u>	<u>\$4,236,012</u>	<u>\$ ---</u>	<u>\$823,118</u>

NOTE C--LOANS RECEIVABLE - Cont'd

	2 - Watch	3 - Special Mention	4 - Substandard	5 - Doubtful	6 - Loss
2013					
Mortgage Loans -					
One- to four-family residences	\$3,267,709	\$700,284	\$3,017,068	\$ ---	\$ 90,000
Commercial and Multi-family residential	829,044	---	769,126	---	150,000
Land	28,099	---	528,846	---	320,000
	<u>4,124,852</u>	<u>700,284</u>	<u>4,315,040</u>	<u>---</u>	<u>560,000</u>
Commercial loans	238,567	---	579,623	---	274,000
Agricultural loans	660,802	---	219,586	---	---
Consumer and other loans:					
Automobile	2,760	---	19,808	---	---
Other	---	---	5,802	---	---
	<u>2,760</u>	<u>---</u>	<u>25,610</u>	<u>---</u>	<u>---</u>
	<u>\$5,026,981</u>	<u>\$700,284</u>	<u>\$5,139,859</u>	<u>\$ ---</u>	<u>\$834,000</u>

Activity in the allowance for loan losses is as follows:

	Year ended September 30		
	2014	2013	2012
Balance, beginning of year	\$1,828,501	\$2,083,346	\$1,787,766
Provision for (release of) allowance for loan losses	(184,400)	184,521	2,590,500
Charge-offs	(84,037)	(470,852)	(2,332,825)
Recoveries	<u>30,936</u>	<u>31,486</u>	<u>37,905</u>
BALANCE, END OF YEAR	<u>\$1,591,000</u>	<u>\$1,828,501</u>	<u>\$2,083,346</u>

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming non-homogenous loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulty. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. The following table represents loans that were modified in troubled debt restructurings and impaired as of September 30:

	2014	2013
Mortgage loans:		
One- to four-family residences	\$ 24,730	\$ 31,930
Commercial and Multi-family residential	54,854	56,961
Land	---	15,612
	<u>79,584</u>	<u>104,503</u>
Commercial	198,341	240,921
Agricultural	---	158,146
	<u>\$277,925</u>	<u>\$503,570</u>

NOTE C--LOANS RECEIVABLE - Cont'd

In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms as of September 30:

	<u>2014</u>	<u>2013</u>
Mortgage loans:		
Land	\$328,485	\$348,447
Other loans		
Commercial	84,095	---
Agricultural	<u>47,168</u>	<u>---</u>
	<u>\$459,748</u>	<u>\$348,447</u>

There are no commitments to lend additional funds to debtors involved in troubled debt restructurings.

The following table presents nonaccrual loans, excluding performing troubled debt restructurings at September 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Impaired loans with no related allowance	\$ 604,702	\$ 565,395	\$2,648,740
Impaired loans with related allowance	<u>449,237</u>	<u>299,005</u>	<u>---</u>
	<u>\$1,053,939</u>	<u>\$ 864,400</u>	<u>\$2,648,740</u>
Valuation allowance related to impaired loans	<u>\$ 188,700</u>	<u>\$ 98,500</u>	<u>\$ ---</u>
Total nonaccrual loans	<u>\$2,579,464</u>	<u>\$2,867,772</u>	<u>\$3,995,318</u>

At September 30, 2014, 2013 and 2012 all loans 90 days or more overdue were on nonaccrual status.

	Year ended September 30		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Average recorded investment in impaired loans	<u>\$ 965,926</u>	<u>\$1,812,228</u>	<u>\$2,399,423</u>
Interest income recognized on a cash basis on impaired loans**	<u>\$ 110,800</u>	<u>\$ 193,420</u>	<u>\$ 217,975</u>

** When loans are placed on nonaccrual status accrued interest is reversed. Until such time the loan is returned to accrual status, interest income is recognized only to the extent that cash payments are received.

NOTE D--ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following at September 30:

	<u>2014</u>	<u>2013</u>
Loans	\$334,730	\$369,461
Investment securities and interest bearing deposits	<u>156,862</u>	<u>148,927</u>
	<u>\$491,592</u>	<u>\$518,388</u>

NOTE E--PREMISES AND EQUIPMENT

Premises and equipment consists of the following at September 30:

	2014	2013
Land	\$ 815,828	\$ 815,828
Building and improvements	3,722,373	3,722,373
Furniture and equipment	<u>936,340</u>	<u>936,340</u>
	5,474,541	5,474,541
Less accumulated depreciation and amortization	<u>2,338,129</u>	<u>2,201,923</u>
	<u>\$3,136,412</u>	<u>\$3,272,618</u>

Depreciation expense on premises and equipment for 2014, 2013 and 2012 totaled \$136,207, \$140,583 and \$139,356, 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 2014, 2013 and 2012 totaled \$14,300, \$13,000 and \$12,800, respectively, and depreciation expense amounted to \$8,110 annually. Future minimum rentals amount to \$1,300 per month through March 31, 2017.

NOTE F--DEPOSITS

Deposit account balances are summarized as follow at September 30:

	2014		2013	
	Amount	%	Amount	%
Noninterest-bearing	\$ 15,024,040	14.15%	\$ 14,638,370	12.89%
NOW	11,884,659	11.20	11,280,002	9.93
Money Market	12,066,266	11.36	13,691,812	12.05
Passbook savings	<u>19,156,047</u>	<u>18.05</u>	<u>18,781,898</u>	<u>16.53</u>
	58,131,012	54.76	58,392,082	51.40
Certificates of deposit:				
0.00 to 0.99%	38,393,196	36.17	40,741,757	35.87
1.00 to 1.99%	6,531,552	6.15	7,736,381	6.81
2.00 to 2.99%	1,901,067	1.79	4,966,316	4.37
3.00 to 3.99%	1,197,940	1.13	1,737,957	1.53
4.00 to 4.99%	<u>---</u>	<u>---</u>	<u>17,883</u>	<u>0.02</u>
	48,023,755	45.24	55,200,294	48.60
	<u>\$106,154,767</u>	<u>100.00%</u>	<u>\$113,592,376</u>	<u>100.00%</u>
Weighted Average Interest Rates	<u>0.41%</u>		<u>0.52%</u>	

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$13,754,280 and \$16,090,064 at September 30, 2014 and 2013, respectively. The Company had other time and demand deposits with a minimum denomination of \$100,000 totaling \$25,117,184 and \$25,176,407 at September 30, 2014 and 2013, 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 was 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

NOTE F--DEPOSITS - Cont'd

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 \$1,782,828 and \$1,816,436 for its directors and officers at September 30, 2014 and 2013, respectively.

At September 30, 2014, contractual maturities of certificate accounts are as follows:

Stated Interest Rate	2015	2016	2017	2018	2019	After
0.00 to 0.99%	\$29,905,063	\$6,354,345	\$1,989,295	\$144,492	\$ ---	\$ ---
1.00 to 1.99%	1,388,097	455,378	1,312,684	703,060	1,915,064	757,269
2.00 to 2.99%	333,755	917,025	599,422	50,865	---	---
3.00 to 3.99%	<u>1,032,906</u>	<u>165,035</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
	<u>\$32,659,821</u>	<u>\$7,891,783</u>	<u>\$3,901,401</u>	<u>\$898,417</u>	<u>\$1,915,064</u>	<u>\$757,269</u>

Interest expense on deposits is as follows:

	Year ended September 30		
	2014	2013	2012
Now, Money Market and Passbook savings accounts	\$ 52,269	\$ 67,362	\$ 201,884
Certificate accounts	<u>371,843</u>	<u>565,708</u>	<u>976,200</u>
	<u>\$424,112</u>	<u>\$633,070</u>	<u>\$1,178,084</u>

NOTE G--ADVANCES FROM FEDERAL HOME LOAN BANK

B&L has entered into a borrowing agreement with the Federal Home Loan Bank of Des Moines (FHLB), allowing the Bank to initiate advances from the FHLB. Advances are collateralized by a blanket pledge agreement with FHLB under which the Bank can draw advances of unspecified amounts. The Bank 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, 2014 and 2013 is approximately \$21,772,038 and \$22,543,507, respectively. The advance agreements include certain prepayment privileges that generally include penalty provisions if prepaid before certain specified dates. The Company had no outstanding advances at September 30, 2014 and 2013.

NOTE H--LINES OF CREDIT

Effective August 18, 2012, B&L had available a discretionary unsecured overnight Fed Funds borrowing facility with a correspondent bank. At the correspondent's sole discretion, funds may be loaned to the Bank for up to fifteen days on an unsecured basis. Any borrowings outstanding after fifteen consecutive days must be secured with collateral acceptable to the correspondent bank. Availability of the line of credit changes from time to time based on eligibility. The maximum credit available under this facility was \$4,174,500 and \$4,840,850 as of September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, there were no open advances on this line.

NOTE I--INCOME TAXES

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

	Year ended September 30		
	2014	2013	2012
Current (benefit)	\$190,300	\$131,200	\$(450,300)
Deferred (benefit)	<u>10,500</u>	<u>134,700</u>	<u>(167,700)</u>
	<u>\$200,800</u>	<u>\$265,900</u>	<u>\$(618,000)</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. Prior to March 22, 2013 B & L operated as a federal thrift institution. Under the provisions of FASB ASC 942 *Financial Services—Depository and Lending*, 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.

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					
	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Income tax expense (benefit) at statutory rate	\$237,374	34.0%	\$302,249	34.0%	\$(527,231)	34.0%
Increase (decrease) in taxes resulting from:						
Officers life insurance	(9,988)	(1.4)	(9,891)	(1.1)	(10,150)	(0.7)
Tax exempt income, net of related expenses	(44,855)	(6.4)	(49,525)	(5.6)	(44,690)	(2.9)
State income tax, net of federal benefit	17,754	2.5	22,638	2.6	(36,498)	2.3
Other, net	<u>515</u>	<u>0.0</u>	<u>429</u>	<u>0.0</u>	<u>569</u>	<u>0.0</u>
	<u>\$200,800</u>	<u>28.7%</u>	<u>\$265,900</u>	<u>29.9%</u>	<u>\$(618,000)</u>	<u>39.9%</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:

	2014	2013
Deferred tax assets		
Allowance for loan and REO losses	\$661,200	\$678,000
Deferred compensation	130,900	137,100
Unrealized loss on available-for-sale securities	52,100	116,900
Deferred tax liabilities		
Depreciation	6,300	(4,000)
FHLB stock dividend	<u>(56,100)</u>	<u>(58,300)</u>
NET DEFERRED TAX ASSET	<u>\$794,400</u>	<u>\$869,700</u>

NOTE I--INCOME TAXES - Cont'd

On October 1, 2007, the Company adopted the provisions of Accounting for Uncertainty in Income Taxes, codified as FASB ASC 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 740. The implementation of FASB ASC 740 did not have an effect on the Company's financial statements. As of September 30, 2014, 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, 2014, 2013 and 2012 and no amounts accrued at September 30, 2014 and 2013.

The Company and its subsidiary file consolidated federal and state income tax returns. The Company is no longer subject to federal and state income tax examinations for tax years prior to 2010.

NOTE J--REGULATORY CAPITAL REQUIREMENTS

B&L, a state chartered bank, is under the supervision and regulation of the Missouri Division of Finance. The Company, a bank holding company, is under the supervision and regulation of the Federal Reserve Board.

The amount of dividends that B&L can pay to the Company without approval from the Federal Reserve Board is limited to its net profits for the current year plus its retained profits for the preceding two years. Under Missouri Revised Statutes, annual cash dividends paid by banks is limited to an amount equal to net income for the current year plus retained net income for the preceding years as long as retained net income doesn't fall below forty percent of the capital of B&L. Dividends in excess of this amount are not allowed. There were no dividends paid by the B&L to the Company in the years ended September 30, 2014 or 2013.

B&L is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and B&L's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, B&L must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures, established by regulations to ensure capital adequacy, require B&L 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. Management believes that as of September 30, 2014 and 2013, B&L met all capital requirements to which they were subject.

NOTE J--REGULATORY CAPITAL REQUIREMENTS - Cont'd

				Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
Actual							
Amount	Ratio			Amount	Ratio	Amount	Ratio
(Dollars in Thousands)							
As of September 30, 2014							
B & L Bank							
Total Risk-Based Capital (to Risk Weighted Assets)	\$14,933	22.72 %	≥	\$5,258	8.00 %	≥	\$6,572 10.00 %
Tier 1 Capital (to Risk Weighted Assets)	14,102	21.46	≥	2,629	4.00	≥	3,943 6.00
Tier 1 Capital (to Adjusted Assets)	14,102	11.56	≥	3,659	3.00	≥	6,099 5.00
Tangible Capital (to Adjusted Assets)	14,102	11.56	≥	1,830	1.50		N/A N/A
As of September 30, 2013							
B & L Bank							
Total Risk-Based Capital (to Risk Weighted Assets)	\$14,889	21.72 %	≥	\$5,485	8.00 %	≥	\$6,856 10.00 %
Tier 1 Capital (to Risk Weighted Assets)	14,021	20.45	≥	2,742	4.00	≥	4,113 6.00
Tier 1 Capital (to Adjusted Assets)	14,021	10.57	≥	3,980	3.00	≥	6,634 5.00
Tangible Capital (to Adjusted Assets)	14,021	10.57	≥	1,990	1.50		N/A N/A

As of September 30, 2014, the most recent notification from the Missouri Division of Finance categorized B&L 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 Company's capital category. The following table provides reconciliation between B&L's GAAP capital and the various categories of regulatory capital as of September 30:

	2014	2013
	(Dollars in Thousands)	
GAAP Capital	\$15,246	\$14,583
Adjustments:		
Deferred taxes	(456)	---
Unrealized gains	101	227
Disallowed intangibles	(789)	(789)
Core, Tangible and Tier 1 Capital	14,102	14,021
Adjustments:		
Allowance for losses	831	868
TOTAL RISK BASED CAPITAL	\$14,933	\$14,889

NOTE K--EMPLOYEE BENEFITS

401(k) Salary Reduction Plan: The Company has a 401(k) salary reduction plan (“Plan”) covering employees meeting certain eligibility requirements as to minimum age and years of service. Employees may make voluntary contributions to the Plan through payroll deductions on a pre-tax basis. The Company does not match the contributions. A participant’s account under the Plan, together with investment earnings thereon, is normally distributable, following retirement, death, disability or other termination of employment.

Salary Continuation Plan: The Company has also entered into salary continuation (“SC”) agreements with four of B&L’s officers. The purpose of these agreements are to provide monthly-deferred compensation payments for a period of 180 months following retirement. The SC agreements are funded by life insurance policies. Deferred compensation charged to operations for the years ended September 30, 2014, 2013, and 2012, was \$32,147, \$33,324 and \$34,402 respectively.

Multi-Employer Defined Benefit Plan: B&L participates in the Pentegra Defined Benefit Plan for Financial Institutions, a multi-employer defined benefit plan (“DB Plan”). The DB Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. The risks of participating in these multiemployer plans are different from single-employer plans in that (1) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (3) if the Company chooses to stop participating in the multiemployer plan, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Management has not expressed any intent to discontinue its contributions to or withdraw from the DB Plan.

The Company’s participation in the multiemployer plan is outlined below. There are no collective bargaining agreements in place that require contributions to the DB Plan. The zone status is based on information that the Company received from the plan and is certified by the plan’s actuary. The red zone is generally less than 65 percent funded, the yellow zone is less than 80 percent funded and the green zone is at least 80 percent funded. There have been no significant changes that affect the comparability of 2014 and 2013 contributions.

The funded status (market value of plan assets divided by funding target) as of July 1, 2014 and 2013 were 115.86% and 101.61%, respectively.

EIN	Pension Plan Number	PPA Zone Status		Contributions of B&L**			Surcharge Imposed
		2014	2013	2014	2013	2012	
13-5645888	333	Green	Green	\$321,000	\$293,000	\$288,000	No

** The total employer contributions made to the DB Plan, as reported on Form 5500, equal \$196,473,170 and \$299,729,365 for the plan years ending June 30, 2013 and 2012, respectively. For the DB Plan years ending June 30, 2013 and 2012, the Company did not contribute more than 5% of the total contributions for the DB Plan. For the DB Plan year ending June 30, 2014, the Form 5500 was unavailable.

NOTE L--INCOME (LOSS) PER SHARE

The shares used in calculation of basic income (loss) per share are as follows:

	Year ended September 30		
	2014	2013	2012
Weighted average common shares outstanding	<u>539,470</u>	<u>539,999</u>	<u>541,064</u>

There were no potentially dilutive securities outstanding as of September 30, 2014, 2013 or 2012.

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

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet 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.

At September 30, 2014 and 2013, the Company was committed to originate loans as follows:

	September 30, 2014			September 30, 2013		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Mortgage	\$ 932,346	\$342,703	\$1,275,049	\$ 676,263	\$ 571,103	\$1,247,366
Agricultural	796,955	276,585	1,073,540	805,859	367,587	1,173,446
Commercial	203,030	61,683	264,713	127,471	78,051	205,522
Consumer and other loans	<u>103,477</u>	<u>288,204</u>	<u>391,681</u>	<u>136,362</u>	<u>307,461</u>	<u>443,823</u>
	<u>\$2,035,808</u>	<u>\$969,175</u>	<u>\$3,004,983</u>	<u>\$1,745,955</u>	<u>\$1,324,202</u>	<u>\$3,070,157</u>

Fixed loan commitments at September 30, 2014 and 2013, have terms of six years or less with interest rates ranging from 1.40% to 12.00% and 2.25% to 12.00%, respectively. The Company has no outstanding letters of credit at September 30, 2014 and \$900 at September 30, 2013.

At September 30, 2014 and 2013, the Company had amounts on deposit at banks and federal agencies in excess of federally insured limits of approximately \$5,001,748 and \$8,550,709, respectively.

B & L Bank entered into a data processing services agreement with Fiserv Solutions, Inc. on May 1, 2003, which was subsequently modified on April 2, 2008 and November 11, 2013. The modified data processing agreement of November 11, 2013 extends the contract maturity date for six years to December 31, 2019 and is automatically renewed annually beginning January 1, 2014. The auto-renewal option provides for discounts applied to core items

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

for the first three years at 15 percent, 10 percent and 5 percent respectively. No discounts apply in the fourth, fifth and sixth years of the modified contract. This agreement may be terminated by B & L by paying a termination fee based on the remaining unused term of the agreement. Expenses under this contract for 2014, 2013 and 2012 totaled \$353,883, \$375,204 and \$358,636 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. There were no such claims and legal actions at September 30, 2014 or 2013.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the guidance of FASB ASC 820, *Fair Value Measurements*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements.)

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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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 1 available-for-sale securities include U.S. Government agency obligations issued by U.S. Government agencies and U.S. Government-sponsored agencies. Level 2 available-for-sale securities include federal agency obligations and mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae.

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

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:

	Fair Value Measurements at September 30, 2014 Using			
	Carrying Value (Fair Value)	Quoted Prices Active For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale				
Federal agency obligations	\$ 6,882,751	\$6,882,751	\$ ---	\$ ---
Mortgage-backed securities	<u>25,340,021</u>	<u>---</u>	<u>25,340,021</u>	<u>---</u>
Total securities available-for-sale	32,222,772	6,882,751	25,340,021	---
Loans held for sale	<u>184,000</u>	<u>---</u>	<u>184,000</u>	<u>---</u>
Total assets at fair value	<u>\$32,406,772</u>	<u>\$6,882,751</u>	<u>\$25,524,021</u>	<u>\$ ---</u>
Fair Value Measurements at September 30, 2013 Using				
	Carrying Value (Fair Value)	Quoted Prices Active For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale				
Federal agency obligations	\$ 7,217,292	\$7,217,292	\$ ---	\$ ---
Mortgage-backed securities	<u>23,860,936</u>	<u>---</u>	<u>23,860,936</u>	<u>---</u>
Total securities available-for-sale	31,078,228	7,217,292	23,860,936	---
Loans held for sale	<u>275,155</u>	<u>---</u>	<u>275,155</u>	<u>---</u>
Total assets at fair value	<u>\$31,353,383</u>	<u>\$7,217,292</u>	<u>\$24,136,091</u>	<u>\$ ---</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, 2014 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 \$449,237 and \$299,005 are reported net of specific valuation allowances of \$188,700 and \$98,500 at September 30, 2014 and 2013, respectively.

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

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, 2014, 2013 and 2012.

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

Fair Value Measurements at September 30, 2014 Using				
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Carrying Value (Fair Value)				
Impaired loans	\$ 260,537		\$ 260,537	
Real estate owned	1,160,158	---	1,160,158	---
Costs in excess of net assets acquired	<u>789,370</u>	<u>---</u>	<u>789,370</u>	<u>---</u>
	<u>\$2,210,065</u>	<u>\$ ---</u>	<u>\$2,210,065</u>	<u>\$ ---</u>

Fair Value Measurements at September 30, 2013 Using				
	Quoted Prices Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Carrying Value (Fair Value)				
Impaired loans	\$ 200,505		\$ 200,505	
Real estate owned	1,398,190	---	1,398,190	---
Costs in excess of net assets acquired	<u>789,370</u>	<u>---</u>	<u>789,370</u>	<u>---</u>
	<u>\$2,388,065</u>	<u>\$ ---</u>	<u>\$2,388,065</u>	<u>\$ ---</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

Fair Value Measurements (in thousands) at September 30, 2014 Using					
	Carrying Amount	Fair Value	Quoted Prices Active For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS					
Cash	\$ 3,808	\$ 3,808	\$ 3,808	\$ ---	\$ ---
Interest-bearing deposits	5,786	5,786	5,786	---	---
Investment securities:					
Available-for-sale	32,223	32,223	6,883	25,340	---
Held-to-maturity	6,935	7,018	---	7,018	---
Stock in FHLB	152	152	---	152	---
Loans held for sale	184	184	---	---	184
Loans receivable	65,991	65,225	---	---	65,225
Accrued interest receivable	492	492	---	---	492
LIABILITIES					
Deposits:					
Transaction accounts	58,131	58,131	---	---	58,131
Certificate of deposit	48,024	48,099	---	---	48,099
Advances from borrowers for taxes and insurance	423	423	---	---	423

Fair Value Measurements (in thousands) at September 30, 2013 Using					
	Carrying Amount	Fair Value	Quoted Prices Active For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS					
Cash	\$ 7,285	\$ 7,285	\$ 7,285	\$ ---	\$ ---
Interest-bearing deposits	6,070	6,070	6,070	---	---
Investment securities:					
Available-for-sale	31,078	31,078	---	31,078	---
Held-to-maturity	6,718	6,676	---	6,676	---
Stock in FHLB	181	181	---	181	---
Loans held for sale	275	275	---	---	275
Loans receivable	70,434	69,749	---	---	69,749
Accrued interest receivable	518	518	---	---	518
LIABILITIES					
Deposits:					
Transaction accounts	58,392	58,392	---	---	58,392
Certificate of deposit	55,200	55,383	---	---	55,383
Advances from borrowers for taxes and insurance	450	450	---	---	450

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.

Investment securities: Fair value is primarily based on quoted market prices for identical and/or 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.

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

Subsequent to September 30, 2014, the Board of Directors approved a dividend of \$0.05 per share on outstanding common stock to stockholders of record on November 21, 2014. The dividend totaling \$26,973 was paid on November 28, 2014.

The Company has evaluated subsequent events through December 17, 2014, the date the 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
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
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

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

205 S. 13th Street
Lexington, Missouri 64067
Telephone (660) 259-2247

BRANCH LOCATIONS

228 South 2nd 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 Townsend & 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 Wednesday January 28, 2015 at 10:00 a.m., local time.

SHAREHOLDER AND GENERAL INQUIRIES

E. Steva Vialle
B & L Bank
205 S. 13th 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