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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number: 0-51992

LIBERTY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of incorporation or organization)

20-4447023

(I.R.S. Employer Identification No.)

16 West Franklin Street, Liberty, Missouri

(Address of principal executive offices)

64068

(Zip Code)

Registrant's telephone number, including area code: (816) 781-4822

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value \$0.01

The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: YES ___ NO X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ___ NO X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ___ NO X

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$27,349,560, based upon the closing price (\$10.00 per share) of the registrant's common stock as quoted on the Nasdaq Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter (March 31, 2008).

The number of shares outstanding of the registrant's common stock as of December 22, 2008 was 3,842,210.

DOCUMENTS INCORPORATED BY REFERENCE

The following lists the documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

1. Portions of the registrant's Proxy Statement for the 2009 Annual Meeting of Stockholders. (Part III)

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SIGNATURES

This report contains "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on Liberty Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" and similar expressions.

Management's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of Liberty Bancorp, Inc. and its subsidiary include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in BankLiberty's market area, changes in real estate market values in BankLiberty's market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulations, Liberty Bancorp, Inc. does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

Item 1. Business

General

Liberty Bancorp, Inc. (the "Company" or "Liberty Bancorp") was organized as a Missouri corporation at the direction of BankLiberty, formerly "Liberty Savings Bank, F.S.B." (the "Bank" or "BankLiberty"), in February 2006 to become the holding company for the Bank upon the completion of the "second-step" mutual-to-stock conversion (the "Conversion") of Liberty Savings Mutual Holding Company (the "MHC"). The Conversion was completed on July 21, 2006. As part of the Conversion, the MHC merged into the Bank, thereby ceasing to exist, and Liberty Savings Bank, F.S.B. changed its name to "BankLiberty." A total of 2,807,383 shares of common stock were sold in the stock offering at the price of \$10.00 per share. In addition, a total of 1,952,754 shares of common stock were issued to the minority shareholders of the former Liberty Savings Bank, F.S.B. representing an exchange ratio of 3.5004 shares of Company common stock for each share of Liberty Savings Bank, F.S.B. common stock. Fractional shares in the aggregate, or 36 shares, were redeemed for cash. Total shares outstanding after the stock offering and the exchange totaled 4,760,137 shares. Net proceeds of \$25.6 million were raised in the stock offering, excluding \$1.2 million which was loaned by the Company to a trust for the Amended and Restated Liberty Savings Bank Employee Stock Ownership Plan (the "ESOP"), enabling it to finance the acquisition of 153,263 shares of common stock in the offering and exchange. Direct offering costs totaled approximately \$1.3 million. In addition, as part of the Conversion and dissolution of Liberty Savings Mutual Holding Company, the Bank received approximately \$694,000 of cash previously held by the MHC.

The Company has no significant assets, other than all of the outstanding shares of the Bank and the portion of the net proceeds it retained from the Conversion, and no significant liabilities. The Company neither owns nor leases any property, but instead uses the premises, equipment and furniture of the Bank.

BankLiberty is a community-oriented financial institution dedicated to serving the financial service needs of consumers and businesses within its market area. We attract deposits from the general public and use these funds to originate loans secured by real estate located in our market area. Our real estate loans include construction loans, commercial real estate loans, and loans secured by single-family or multi-family properties. To a lesser extent, we originate consumer loans and commercial business loans.

The Bank is subject to extensive regulation, examination and supervision by the Office of Thrift Supervision (the "OTS"), its primary federal regulator, and the Federal Deposit Insurance Corporation (the "FDIC"), its deposit insurer. The Bank has been a member of the Federal Home Loan Bank System since its inception and is a member of the Federal Home Loan Bank of Des Moines.

Our website address is www.banklibertykc.com. Information on our website should not be considered a part of this Form 10-K.

Market Area

The Bank's home office is located in the city of Liberty, Missouri, which is in Clay County, Missouri. In addition to our main office, BankLiberty operates six full-service branch offices in the Kansas City, Missouri metropolitan area.

We operate primarily in the northern portion of the Kansas City metropolitan area, which is experiencing relatively weak population and economic growth similar to the national economy. The offices are located in four different counties, including two branches each in Clay and Platte Counties and single branches in Clinton and Jackson counties. All of the counties are included in the Kansas City metropolitan area.

The following table sets forth demographic information regarding the counties in which our offices are located.

County	Approximate Population	Population Growth Since 2000	Per Capita Income	Median Income	Unemployment Rate
Clay.....	207,000	12.5%	\$23,144	\$54,021	4.2%
Platte.....	83,000	12.5	26,356	61,030	3.7
Clinton.....	21,000	8.9	19,056	46,495	4.9
Jackson.....	664,000	1.4	20,788	42,351	5.5

During the past five years, the population for each county BankLiberty serves has increased by 1% or more on an annual basis, with the highest growth rate since 2000 in Platte County. Since 2000, all of the counties experienced higher population growth than the State of Missouri, and Clay, Clinton and Platte counties grew faster than the United States population. In 2006, per capita income for the State of Missouri and the United States was \$19,936 and \$21,587, respectively, and median household income was \$40,870 and \$43,318, respectively.

Our market area is the Kansas City metropolitan area, which comprises 11 counties in Missouri and Kansas. The four counties that the Bank serves have a mix of industry groups and employment sectors, including services, manufacturing and transportation. In Clay County, top employers include Ford Motor Co., Cerner Corporation (health care services), a number of casinos and an amusement park. Clinton County's top employers are within the services sector and include Cameron Regional Medical Center, Cameron R-1 (school district) and the county government. Platte County relies on the transportation sector of employment, attributable to the operations of Kansas City International Airport. Other top employers in Platte County include American Airlines (which operates a maintenance facility), Citicorp Credit Services Inc. and Harley-Davidson Inc. Jackson County, the most populous county served and the most urban, includes Kansas City and its downtown area. Manufacturing and services are the top employment sectors in Jackson County, including the federal government, Health Midwest, Hallmark Cards Inc. and DST Systems Inc. As of July 2006, all of the counties within the Bank's market area, except Jackson and Clinton Counties, had unemployment rates below the state and national rates.

Our primary market area for deposits includes the communities in which we maintain our banking office locations. Our primary lending area is broader than our primary deposit market area and includes surrounding counties.

Competition

We face significant competition for the attraction of deposits and origination of loans. At June 30, 2008, which is the most recent date for which data is available from the FDIC, we held approximately 13.19%, 0.21%, 3.99% and 4.42% of the deposits in Clinton, Jackson, Platte and Clay Counties, respectively, which was the fourth largest market share out of eight financial institutions with offices in Clinton County, the 30th largest market share out of 54 financial institutions with offices in Jackson County, the 12th largest market share out of 20 financial institutions with offices in Platte County and the sixth largest market share out of 32 financial institutions with offices in Clay County. In addition, large national or regional bank holding companies operate in our market area. These institutions are significantly larger than us and, therefore, have significantly greater resources.

Our most direct competition for loans and deposits comes primarily from financial institutions in our market area, and, to a lesser extent, from other financial service providers, such as brokerage firms, credit unions, mortgage companies and mortgage brokers. Our main competitors include a number of significant independent banks. We also face competition for investors' funds from money market funds and other corporate and government securities. Competition for loans also comes from the increasing number of non-depository financial service companies entering the lending market, such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our growth in the future.

Lending Activities

General. Our loan portfolio consists primarily of real estate loans, which include real estate construction loans, single-family residential loans, commercial real estate loans and multi-family real estate loans. To a lesser extent, we also originate commercial business loans and consumer loans. These loans are originated primarily in Clay, Clinton, Platte and Jackson Counties in Missouri, which comprise the northern and eastern portions of the Kansas City, Missouri metropolitan area. We sell substantially all new, fixed-rate conforming single-family loans in the secondary market due to the current low interest rate environment.

Construction Lending. At September 30, 2008, our loan portfolio included \$90.5 million in loans secured by properties under construction, with such loans representing 32.5% of our total loan portfolio at that date. Our construction lending has traditionally involved single-family residential lending to builders where the residences being built have not been sold prior to commencement of construction, known as "spec" construction lending, and to custom homebuilders. In 2008, we have decreased our construction loans due to current market conditions.

Our construction loans are secured by the following types of real estate:

	At September 30,	
	2008	2007
	(In thousands)	
Single-family, spec.....	\$13,247	\$ 29,331
Single-family, custom built.....	6,346	7,098
Multi-family, 5 or more units.....	821	1,495
Development.....	36,670	36,408
Commercial.....	33,398	51,020
Other.....		445
Total.....	<u>\$90,482</u>	<u>\$125,797</u>

We originate spec loans only to builders with experience building and selling spec single-family residences. Our spec residential mortgage construction loans generally provide for the payment of interest only during the construction phase, which is usually 12 months. Spec loans generally can be made with a maximum loan-to-value ratio of 85% of the appraised value or 100% of the cost of the project, whichever is less. Interest rates on residential construction loans are set at the prime rate plus a margin, and adjust with changes in the prime rate. We also generally charge a fee for residential construction loans. At September 30, 2008, loans for the construction of spec sale homes totaled \$13.2 million, or 4.8% of our total loan portfolio and 14.6% of our portfolio of construction loans. At September 30, 2008, the largest spec loan was for \$468,180. This loan was performing according to its terms at September 30, 2008. At September 30, 2008, our largest outstanding indebtedness to a single builder for spec loans totaled \$2.0 million. All loans to this builder were performing in accordance with their terms at September 30, 2008.

We also originate construction loans for customers to have their personal residences custom-built. We do not approve loans to customers acting as their own builder for their residences. A custom-build project loan requires the use of an approved qualified general contractor experienced in home building and written approval for permanent financing. Custom-build project loans can be made with a maximum loan-to-value ratio of 85%. At September 30, 2008, the largest outstanding custom-build project loan was \$486,200, of which \$364,074 is outstanding. This loan was performing according to its terms at September 30, 2008.

We also make loans for the construction of non single-family residential properties, including loans for the construction of multi-family residential properties such as condominiums and planned multi-family communities. We generally do not make nonresidential construction loans in amounts that exceed a loan-to-value ratio of 85% where the value is determined by the fully improved, or completed project's current appraised market value. These loans generally have an interest-only phase during construction, which is usually 12 to 24 months, and then convert to permanent financing. Disbursements of funds are at the sole discretion of the Bank and are based on the progress of construction. Interest rates and fees on nonresidential construction projects are negotiated, but such loans generally carry adjustable rates of prime, plus a margin.

As part of our nonresidential lending program, we offer loans to selected developers to acquire land and develop residential lots or commercial properties. At September 30, 2008, such loans amounted to \$36.7 million, or 13.2% of our total loan portfolio. We make the loans with terms from 12 to 24 months, depending on the size of the project, at interest rates equal to the prime rate plus a negotiated margin of between 0.0% and 1.0% and that adjust daily with changes in the prime rate. We generally originate these loans at a loan-to-value ratio of the lesser of 75% of the appraised value of the security property or 100% of the cost. Loans generally are structured so that the loan will be completely repaid after the developer has sold 75% of the lots being developed.

We require that development loans be reviewed by independent architects or engineers. Disbursements during the construction phase are based on monthly on-site inspections and approved certifications. We generally commit to provide the permanent financing on residential projects and usually require some minimum presale commitments. In the case of construction loans on commercial projects where we will provide the permanent financing, we usually require firm lease commitments on some portion of the property under construction from

qualified tenants for a period covering the duration of the loan and usually also require rent assignments in an amount sufficient to satisfy debt service requirements. At September 30, 2008, our largest development loan outstanding was a \$6.8 million loan for the development of a commercial retail project. This loan was originated in May 2007. At September 30, 2008, this loan was performing in accordance with its terms and conditions.

For the fiscal year ended September 30, 2008, we originated \$50.6 million in construction loans. A substantial amount of our construction loans, except loans to homebuilders, are structured to convert to permanent loans upon completion of construction, and typically have an initial construction loan term of 12 to 18 months prior to converting to a permanent loan. Loan proceeds are disbursed during the construction phase according to a draw schedule based on the actual work completed. Construction projects are inspected by our officers and, if warranted by the complexity of the project, an independent contractor. Construction loans are underwritten on the basis of the estimated value of the property as completed and loan-to-value ratios are based on each project's appraised value.

Single-Family Residential Real Estate Lending. Historically, our primary lending activity was the origination of conventional mortgage loans on single-family residential dwellings. However, in recent years, we have emphasized the origination of real estate construction and commercial real estate loans. As of September 30, 2008, loans on single-family one- to four-unit, residential properties accounted for \$40.7 million, or 14.6%, of our loan portfolio.

We originate fixed-rate fully amortizing loans with maturities ranging between 10 and 30 years. Management establishes the loan interest rates based on market conditions. We offer mortgage loans that conform to Fannie Mae and Freddie Mac guidelines, as well as jumbo loans, which presently are loans in amounts over \$417,000. Substantially all fixed-rate, single-family loans are sold to secondary market investors.

We also currently offer adjustable-rate loans, with interest rates that adjust annually after a three-, five- or seven-year initial fixed period and with terms of up to 30 years. Interest rate adjustments on such loans are generally limited to no more than 2% during any adjustment period and 6% over the life of the loan. Demand for adjustable-rate loans has been low during the past two years due to the relatively low interest rates available on fixed-rate loans.

We underwrite single-family residential loans with loan-to-value ratios of up to 85%. We require that title, hazard and, if appropriate, flood insurance be maintained on all properties securing real estate loans made by us. An independent licensed appraiser generally appraises all properties.

Our single-family loan originations are generally for terms of 15, 20 or 30 years, amortized on a monthly basis with interest and principal due each month. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms as borrowers may refinance or prepay loans at their option, without penalty. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans. Conventional residential mortgage loans we originate customarily contain "due-on-sale" clauses, which permit the Bank to accelerate the indebtedness of the loan upon transfer of ownership of the mortgaged property.

We retain some of the adjustable-rate mortgages we originate in order to reduce our exposure to changes in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of repricing of adjustable-rate mortgage loans. During periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest cost to the borrower.

Multi-Family and Commercial Real Estate Lending. We offer fixed-rate and adjustable-rate mortgage loans secured by income-producing multi-family and commercial real estate. Our multi-family and commercial real estate loans generally are secured by improved property such as office buildings, retail centers, apartment buildings and churches which are located in our primary market area. At September 30, 2008, loans secured by multi-family properties, *i.e.*, more than four units, amounted to \$17.4 million, or 6.2% of our loan portfolio, and commercial (non-residential) real estate loans amounted to \$102.3 million, or 36.7% of our loan portfolio. In the aggregate, multi-family and commercial real estate lending totaled approximately \$119.7 million, or 42.9%, of our total loan portfolio at that date.

Multi-family and commercial real estate loans generally amortize over a period of from 15 to 25 years but usually mature in either three or five years. Multi-family and commercial real estate loans generally are made in amounts not exceeding 85% of the lesser of the appraised value or the purchase price of the property. While we offer adjustable-rate multi-family real estate loans and commercial real estate loans, most such loans have a fixed interest rate indexed to the three- or five-year treasury bill rate plus a margin. At September 30, 2008, our largest commercial real estate loan had an outstanding balance of \$9.4 million, was secured by several retail buildings and was performing in accordance with its terms. At September 30, 2008, our largest multi-family real estate loan had an outstanding balance of \$2.2 million, was secured by a 65-unit apartment complex and was performing in accordance with its terms.

Consumer Lending. We have a consumer-lending program that primarily targets existing customers. The program emphasizes our commitment to community-based lending and is designed to meet the needs of consumers in our primary market area. Our consumer loans consist primarily of home equity loans and lines of credit, and, to a much lesser extent, automobile loans, loans secured by deposit accounts and other miscellaneous consumer loans. As of September 30, 2008, consumer loans constituted approximately \$9.9 million, or 3.6%, of our total loan portfolio.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history and the ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes an analysis of the applicant's employment stability, capacity to pay debts, and a comparison of the value of the collateral, if any, to the proposed loan amount.

We generally offer home equity loans and home equity lines of credit with a maximum combined loan-to-value ratio of 100%, provided that loans in excess of 85% carry higher interest rates and are subject to stricter underwriting requirements. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in *The Wall Street Journal*. A home equity line of credit may be drawn down by the borrower for an initial period of 10 years from the date of the loan agreement. During this period, the borrower has the option of paying, on a monthly basis, either principal and interest or only interest. At September 30, 2008, home equity loans and lines of credit totaled \$8.7 million, or 3.1% of our loan portfolio.

The Bank makes loans secured by deposit accounts in amounts that may not exceed the account balance plus accrued interest at the due date. The interest rate is usually set at 2% above the rate being paid on the collateral deposit account with the account pledged as collateral to secure the loan. At September 30, 2008, loans secured by deposit accounts totaled \$142,000, or .05% of our loan portfolio.

Our automobile loans are generally underwritten in amounts up to 90% of the lesser of the purchase price of the automobile or, with respect to used automobiles, the loan value as published by the National Automobile Dealers Association. The terms of most such loans do not exceed 60 months. We require that the vehicles be insured and that we be listed as mortgagee on the insurance policy. At September 30, 2008, automobile loans totaled \$446,000, or .16% of our loan portfolio.

Commercial Lending. On a limited basis, we originate commercial business loans to small businesses in our market area. At September 30, 2008, commercial business loans totaled \$17.8 million, or 6.4% of our total loan portfolio. We extend commercial business loans on a secured basis that generally are secured by inventory, business equipment, marketable securities and/or bonds and cash surrender value life insurance. We originate both fixed- and adjustable-rate commercial loans with terms generally up to five years based on the purpose of the loan. Interest rates on adjustable-rate commercial loans are usually based on the prime rate as published in *The Wall Street Journal*, plus a margin, and adjust as the prime rate changes. We also originate lines of credit to finance short-term working capital needs, with repayment from asset conversion in the normal course of business. Closed end credit lines are also provided for planned equipment purchases or other finite purposes.

When providing commercial business loans, we consider the borrower's financial condition, the payment history on corporate and personal debt, debt service capabilities and actual and projected cash flows. In addition, the borrower's inherent industry risks and the collateral value are analyzed. At September 30, 2008, our largest

commercial loan was a \$2.3 million loan secured by car hauling equipment. At September 30, 2008, this loan was performing in accordance with its terms.

Loan Underwriting Risks

Construction Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building or project. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building or project having a value that is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

Multi-Family and Commercial Real Estate Loans. Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than single-family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the project's cash flow potential. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements on multi-family and nonresidential real estate loans. In reaching a decision on whether to provide a multi-family or commercial real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of net operating income before debt service to debt service) of at least 1.20x. Environmental surveys are obtained when circumstances suggest the possibility of the presence of hazardous materials.

Consumer Loans. Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Loan Originations, Purchases and Sales. Loan originations are derived from a number of sources. Residential mortgage loan originations primarily come from walk-in customers and referrals by realtors, depositors and borrowers. We advertise our mortgage loan services primarily through local builder periodicals, billboard advertisements, and to a lesser extent, direct mailings. Commercial, commercial real estate and construction loans are typically derived from the business development efforts of the Bank's commercial banking officers. Applications are taken at all offices but are processed in the Bank's main office and submitted for approval.

We sell in the secondary market substantially all fixed-rate single-family mortgage loans we originate that conform to Fannie Mae and Freddie Mac guidelines. These loans are sold with servicing released. We also sell participation interests in loans to local financial institutions, primarily on the portion of loans that exceed our borrowing limits. We sold \$9.5 million, \$4.6 million and \$8.75 million of participation interests in loans during the fiscal years ended September 30, 2008, 2007 and 2006, respectively.

In fiscal 2008, we purchased participation interests, primarily in commercial real estate loans. The aggregate outstanding balance of all such purchased loans totaled \$13.4 million at September 30, 2008. We perform our own underwriting analysis on each of our participation interests before purchasing such loans and therefore believe there is no greater risk of default on these obligations. However, in a purchased participation loan, we do not service the loan and thus are subject to the policies and practices of the lead lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings. We are permitted to review all of the documentation relating to any loan in which we participate, including any annual financial statements provided by a borrower. Additionally, we receive periodic updates on the loan from the lead lender. We have not historically purchased any whole loans. However, we would entertain doing so if a loan was presented to us that met our underwriting criteria and fit within our interest rate strategy.

Loan Approval Procedures and Authority. Upon receipt of a loan application from a prospective borrower, a credit report and verifications are ordered to confirm specific information relating to the loan applicant's employment, income and credit history. Where applicable, an appraisal of the real estate intended to secure the proposed loan is undertaken by an independent fee appraiser approved by the Bank. Our Board of Directors has the responsibility and authority for general supervision over our lending policies. The Board has established written lending policies and has delegated to the Officers Loan Committee (the "OLC") the authority to approve all loan proposals exceeding individual authorities up to a maximum relationship amount of \$750,000. The individual authority limits range from \$15,000 to \$250,000 based on experience, lending history and seniority. The OLC consists of the Chief Executive Officer, the Chief Lending Officer, the Internal Auditor (non-voting member) and all Vice President loan officers.

The Board has further established a Directors Loan Committee (the "DLC") as a joint Directors and Senior Officers committee. This committee has approval authority for all loan proposals in excess of the authority level given to the OLC and for all loans to directors and executive officers. The DLC has approval authority for individual loan proposals exceeding \$500,000, or aggregate relationship proposals exceeding \$750,000. The DLC consists of the non-officer members of the Board of Directors.

State certified or licensed appraisers must perform all real estate appraisals performed in connection with federally related transactions. Federally related transactions include real estate related financial transactions that the Office of Thrift Supervision regulates and which include mortgages made by the Bank. Office of Thrift Supervision regulations require that all federally related transactions having a transaction value of more than \$250,000, other than those involving appraisals of one- to four-family residential properties, require an appraisal performed by a state certified appraiser. Single-family residential property financing may require an appraisal by a state certified appraiser if the amount involved exceeds \$1.0 million or the financing involves a "complex" one- to four-family property appraisal. Appraisals are generally not required for transactions when the transaction value is \$250,000 or less, or when the transaction is not secured by real estate. In some instances, an appropriate evaluation of real estate may be required.

Loans to One Borrower. At September 30, 2008, the maximum amount that the Bank could have loaned to any one borrower under the 30%, 25% and 15% limits of risk-based capital was approximately \$12.3 million, \$10.2 million and \$6.1 million, respectively. At that date, our largest lending relationship totaled \$16.8 million and consisted of loans secured by commercial real estate. This relationship meets loans to one borrower regulations due

to limited guarantor relationships and different repayment sources. The loans were performing according to their original terms at September 30, 2008. See "Regulation and Supervision—Lending Limits" for further discussion of loans to one borrower lending limits.

Loan Commitments. We issue commitments for fixed-rate and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers.

Interest Rates and Loan Fees. The interest rates we charge on mortgage loans are primarily determined by competitive loan rates offered in its market area. Mortgage loan interest rates reflect factors such as general market interest rate levels, the supply of money available to the financial institutions industry and the demand for such loans. These factors are in turn affected by general economic conditions, the monetary policies of the Federal government, including the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). In some cases, market interest rates have caused the Bank to modify borrowers' interest rates, as an alternative to refinancing, in order to retain these loans in the Bank's loan portfolio.

In addition to interest earned on loans, we receive fees in connection with loan commitments and originations, loan modifications, late payments and for miscellaneous services related to its loans. Income from these activities varies from period to period with the volume and type of loans originated, which in turn is dependent on prevailing mortgage interest rates and their effect on the demand for loans in the markets we serve.

Investment Activities

Mortgage-Backed Securities. We invest in mortgage-backed securities primarily issued or guaranteed by the United States government or an agency thereof. Mortgage-backed securities represent a participation interest in a pool of single-family or multi-family mortgages, the principal and interest payments on which are passed from the mortgage originators, through intermediaries (generally quasi-governmental agencies) that pool and repackage the participation interests in the form of securities, to investors such as the Bank. Such quasi-governmental agencies, which guarantee the payment of principal and interest to investors, primarily include Ginnie Mae, Freddie Mac and Fannie Mae. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying interest rates and maturities. The underlying pool of mortgages can be composed of either fixed-rate or adjustable-rate mortgages. As a result, the interest rate risk characteristics of the underlying pool of mortgages; *i.e.*, fixed-rate or adjustable-rate, are passed on to the certificate holder. Historically, we have invested in adjustable-rate and short-term (five- to seven-year maturities) mortgage-backed securities to supplement local loan originations, as well as to reduce interest rate risk exposure, because mortgage-backed securities are more liquid than mortgage loans. However, in recent years, we have purchased primarily five- to seven-year balloon issues and fixed-rate 15-year issues, and, to a lesser extent, collateralized mortgage obligations. At September 30, 2008, our mortgage-backed securities totaled \$14.0 million.

Investment Securities. It is our policy to consistently maintain a liquid portfolio. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives, our judgment as to the attractiveness of the yields then available in relation to other opportunities, our expectations of the level of yield that will be available in the future and our projections as to the short-term demand for funds to be used in our loan origination and other activities.

The general objectives of our investment policy are to (i) maintain liquidity levels sufficient to meet our operating needs, (ii) minimize interest rate risk by managing the repricing characteristics of our assets and liabilities, (iii) reduce credit risk by maintaining a balance of high quality diverse investments, (iv) absorb excess liquidity when loan demand is low and/or deposit growth is high, (v) maximize returns without compromising liquidity or creating undue credit or interest rate risk, and (vi) provide collateral for pledging requirements. Our investment activities are conducted by senior management, specifically, the Chief Financial Officer, and supervised by the Board of Directors. The investment policy adopted by the Board currently provides for maintenance of an investment portfolio for the purposes of providing earnings, ensuring a minimum liquidity reserve and facilitating our asset/liability management objectives of limiting the weighted average terms to maturity or repricing of our interest-earning assets. In accordance with the policy, we have invested primarily in government and agency

securities backed by the full faith and credit of the United States and municipal securities, and as discussed above, mortgage-backed securities and participation certificates issued by Ginnie Mae, Freddie Mac and Fannie Mae.

For information regarding the carrying values and market values and other information for our mortgage-backed securities and other securities, see notes 1, 3 and 4 of the notes to consolidated financial statements included in this Form 10-k.

Deposit Activities and Other Sources of Funds

General. Deposits are a significant source of funds for lending and other investment purposes. In addition to deposits, we derive funds from loan principal repayments, interest payments and maturing investment securities. Loan repayments and interest payments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources, or on a longer-term basis for general business purposes. During recent years, we have used FHLB advances and customer deposits to fund loans. We continuously monitor and evaluate the pricing of Federal Home Loan Bank of Des Moines advances as an alternative to retail deposits as a source of funds.

Deposits. We attract principally from within our market area by offering a variety of deposit instruments, including accounts and certificates of deposit ranging in term from 91 days to 60 months, as well as NOW, passbook and money market deposit accounts. Deposit account terms vary, principally on the basis of the minimum balance required, the time periods the funds must remain on deposit and the interest rate. We also offer individual retirement accounts.

Our policies are designed primarily to attract deposits from local residents. We accept brokered deposits and at September 30, 2008, we had \$15.0 million in brokered deposits. Brokered deposits represent an alternative and immediate source of funds but generally bear a higher interest rate than local retail deposits. Brokered deposits are highly susceptible to withdrawal if the rates we pay on such deposits are not competitive. We establish interest rates, maturity terms, service fees and withdrawal penalties on a periodic basis. Determination of rates and terms are predicated upon funds acquisition and liquidity requirements, rates paid by competitors, growth goals and federal regulations. In order to increase our transaction accounts, we continuously evaluate these products and then develop new interest-bearing and noninterest-bearing checking accounts in order to appeal to varied customer needs. Automated teller machine services are offered as an additional incentive to attract transaction accounts. Also, we have increased advertising and marketing efforts in an attempt to attract such accounts.

Borrowings. Retail deposits historically have been the primary source of funds for our lending and investment activities and for our general business activities. We also use advances from the Federal Home Loan Bank of Des Moines to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The Federal Home Loan Bank of Des Moines functions as a central reserve bank providing credit for savings institutions and certain other member financial institutions. As a member, the Bank is required to own capital stock in the Federal Home Loan Bank of Des Moines and is authorized to apply for advances on the security of such stock and certain of its home mortgages and other assets (principally, securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances from the Federal Home Loan Bank of Des Moines are secured by our stock in the Federal Home Loan Bank of Des Moines, a portion of mortgage loans and certain securities. Advances from the Federal Home Loan Bank of Des Moines totaled \$69.2 million at September 30, 2008, with a weighted average interest rate of 2.58%, and had maturity dates which varied up to September 2012.

We also borrow funds pursuant to the Federal Home Loan Bank's Community Investment Program, which funds are used to make loans to low and moderate income borrowers at rates established pursuant to the program. Community Investment Program advances amounted to \$7.9 million at September 30, 2008. During the year ended September 30, 2008, we borrowed \$9.2 million pursuant to the Community Investment Program. During the years ended September 2007 and 2006 we did not borrow any funds under this Program.

In addition, we borrow funds pursuant to agreements to repurchase. Securities sold under agreements to repurchase are customer funds that are invested overnight in mortgage-related securities. These types of accounts are often referred to as sweep accounts and reprice daily.

Personnel

As of September 30, 2008, the Bank had 69 full-time and 15 part-time employees. The employees are not represented by a collective bargaining group. We consider our relations with our employees to be excellent.

Executive Officers

The executive officers of the Company are elected annually by the Board of Directors and serve at the Board's discretion. Unless otherwise stated, each executive officer has held his position for at least five years. The ages presented are as of September 30, 2008. The executive officers are:

Name	Age	Position
Brent M. Giles	41	President and Chief Executive Officer of the Company and the Bank
Marc J. Weishaar	47	Senior Vice President and Chief Financial Officer of the Company and the Bank
Mark E. Hecker	42	Senior Vice President and Chief Lending Officer of the Bank

Brent M. Giles has served as our President and Chief Executive Officer since September 2003. Prior to joining the Bank, from August 2001 to August 2003, Mr. Giles was President of Lawson Bank, Lawson, Missouri, a Missouri-based community bank. From May 2000 to July 2001, Mr. Giles served as a financial services consultant with Rightworks Corporation, San Jose, California, and from April 1998 to May 2000, Mr. Giles served as Vice President of UMB Bank, Kansas City, Missouri. From 1989 to April 1998, Mr. Giles was a financial institutions examiner with the Federal Deposit Insurance Corporation. Director since 2003.

Marc J. Weishaar is Senior Vice President and Chief Financial Officer of Liberty Bancorp and the Bank. He has served as Chief Financial Officer at the Bank since January 1995. From November 1991 to January 1995, Mr. Weishaar was Assistant Vice President, Compliance Officer of the Bank. From 1989 to November 1991, Mr. Weishaar was employed as a loan officer with UMB Bank, Kansas City, Missouri. From 1985 to 1989, Mr. Weishaar was employed in public accounting. He has a B.S. in Business Administration from the University of Kansas, Lawrence, Kansas and an M.B.A. from the University of Missouri, Kansas City.

Mark E. Hecker has served as the Bank's Senior Vice President and Chief Lending Officer since June 2004. From March 1996 to June 2004, Mr. Hecker served in various capacities, including Commercial Loan Officer and Vice President, Commercial Manager, in Lee's Summit, Missouri with Commercial Federal Bank, Omaha, Nebraska. From 1990 to March 1996, Mr. Hecker was a financial institutions examiner with the Federal Deposit Insurance Corporation. He has a B.S. in accounting from Central Missouri State University, Warrensburg, Missouri.

Subsidiaries

As of September 30, 2008, the Bank was the Company's only subsidiary. The Bank is wholly owned by the Company.

Regulation and Supervision

General. As a federally chartered savings bank, the Bank is subject to extensive regulation by the OTS. The lending activities and other investments of the Bank must comply with various federal regulatory requirements and the FDIC and OTS regulations governing such matters as capital standards, mergers, establishment of branch offices, subsidiary investments and activities and general investment authority. The OTS periodically examines the Bank for compliance with various regulatory requirements and the FDIC also has the authority to conduct special examinations of insured institutions. The Bank must file reports with the OTS describing its activities and financial condition. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of depositors. Certain of these regulatory requirements are referred to below or appear elsewhere herein. This summary of regulatory requirements does not

purport to be a complete description and is qualified in its entirety by reference to the actual statutes and regulations involved.

Business Activities. The activities of federal savings banks are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

Regulatory Capital Requirements. Under OTS capital standards, savings institutions must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" or "Tier 1" capital equal to 4% (or 3% if the institution is rated CAMELS 1 under the OTS examination rating system) of adjusted total assets and a combination of core and "supplementary" capital equal to 8% of "risk-weighted" assets. In addition, the OTS regulations impose certain restrictions on savings institutions that have a total risk-based capital ratio that is less than 8%, a ratio of Tier 1 capital to risk-weighted assets of less than 4% or a ratio of Tier 1 capital to adjusted total assets of less than 4% (or 3% if the institution is rated CAMELS 1 under the OTS examination rating system). See "*Prompt Corrective Regulatory Action*." For purposes of this regulation, Tier 1 capital has the same definition as core capital, i.e., common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and related surplus and minority interests in the equity accounts of fully consolidated subsidiaries. Core capital is generally reduced by the amount of the savings institution's intangible assets. Limited exceptions to the deduction requirement are provided for certain mortgage servicing rights and credit card relationships. Tangible capital is given the same definition as core capital and is reduced by the amount of all the savings institution's intangible assets with only a limited exception for certain mortgage servicing rights.

Both core and tangible capital are further reduced by an amount equal to a savings institution's debt and equity investments in subsidiaries engaged in activities not permissible for national banks, other than subsidiaries engaged in activities undertaken as agent for customers or in mortgage banking activities and subsidiary depository institutions or their holding companies. At September 30, 2008, the Bank had no such investments.

Adjusted total assets include a savings institution's total assets as determined under generally accepted accounting principles, increased for certain goodwill amounts and by a prorated portion of the assets of unconsolidated includable subsidiaries in which the savings institution holds a minority interest. Adjusted total assets are reduced by the amount of assets that have been deducted from capital, the portion of savings institution's investments in subsidiaries that must be netted against capital under the capital rules and, for purposes of the core capital requirement, qualifying supervisory goodwill. At September 30, 2008, the Bank's adjusted total assets for purposes of core and tangible capital requirements were \$332.2 million.

In determining compliance with the risk-based capital requirement, a savings institution is allowed to include both core capital and supplementary capital in its total capital, provided the amount of supplementary capital does not exceed the savings institution's core capital. Supplementary capital includes certain preferred stock issues, certain approved subordinated debt, specified other capital instruments, a portion of the savings institution's general loss allowances and up to 45% of unrealized gains of equity securities. Total core and supplementary capital are reduced by the amount on capital instruments held by other depository institutions pursuant to reciprocal arrangements and all equity investments. At September 30, 2008, the Bank had no equity investments for which OTS regulations require a deduction from total capital.

The risk-based capital requirement is measured against risk-weighted assets which equal the sum of each asset and the credit-equivalent amount of each off-balance sheet item after being multiplied by an assigned risk weight. Under the OTS risk-weighting system, one- to four-family first mortgages with specified loan-to-value ratios that are not more than 90 days past due are assigned a risk weight of 50%. Consumer and residential construction loans are assigned a risk weight of 100%. Mortgage-backed securities issued, or fully guaranteed as to principal and interest by the FNMA or FHLMC are assigned a 20% risk weight. Cash and U.S. Government securities backed by the full faith and credit of the U.S. Government (such as mortgage-backed securities issued by GNMA) are given a 0% risk weight. As of September 30, 2008, the Bank's risk-weighted assets were approximately \$284.3 million.

The table below provides information with respect to the Bank's compliance with its regulatory capital requirements at September 30, 2008.

	<u>Amount</u>	<u>Percent of Assets (1)</u>
	(Dollars in thousands)	
Tangible capital.....	\$38,333	11.5%
Tangible capital requirement	<u>4,983</u>	<u>1.5</u>
Excess	<u>33,350</u>	<u>10.0</u>
Tier 1/core capital.....	\$38,333	11.5%
Tier 1/core capital requirement (2)	<u>13,288</u>	<u>4.0</u>
Excess	<u>25,045</u>	<u>7.5</u>
Tier 1/risk-based capital.....	\$38,333	13.5%
Tier-1/risk-based capital requirement.....	<u>11,371</u>	<u>4.0</u>
Excess	<u>26,962</u>	<u>9.5</u>
Total risk-based capital.....	\$40,966	14.4%
Total risk-based capital requirement.....	<u>22,741</u>	<u>8.0</u>
Excess	<u>18,225</u>	<u>6.4</u>

- (1) Based upon adjusted total assets for purposes of the tangible capital and core capital requirements, and risk-weighted assets for purposes of the risk-based capital requirements.
- (2) Reflects the capital requirement that we must satisfy to avoid regulatory restrictions that may be imposed pursuant to prompt corrective action regulations.

In addition to requiring generally applicable capital standards for savings institutions, the OTS is authorized to establish the minimum level of capital for a savings institution at such amount or at such ratio of capital-to-assets as the OTS determines to be necessary or appropriate for such institution in light of the particular circumstances of the institution. Such circumstances would include a high degree of exposure to interest rate risk, prepayment risk, credit risk, concentration of credit risk and certain risks arising from nontraditional activities. The OTS may treat the failure of any savings institution to maintain capital at or above such level as an unsafe or unsound practice and may issue a directive requiring any savings institution which fails to maintain capital at or above the minimum level required by the OTS to submit and adhere to a plan for increasing capital.

At September 30, 2008, the Bank exceeded all regulatory minimum capital requirements.

Prompt Corrective Regulatory Action. Under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), the federal banking regulators are required to take prompt corrective action if an insured depository institution fails to satisfy certain minimum capital requirements, including a leverage limit, a risk-based capital requirement, and any other measure deemed appropriate by the federal banking regulators for measuring the capital adequacy of an insured depository institution. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees if the institution would thereafter fail to satisfy the minimum levels for any of its capital requirements. An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The capital restoration plan must include a guarantee by the institution's holding company that the institution will comply with the plan until it has been adequately capitalized on average for four consecutive quarters, under which the holding company would be liable up to the lesser of 5% of the institution's total assets or the amount necessary to bring the institution into capital compliance as of the date it failed to comply with its capital restoration plan.

A "significantly undercapitalized" institution, as well as any undercapitalized institution that does not submit an acceptable capital restoration plan, may be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities, possible replacement of directors and officers, and restrictions on capital distributions by any bank holding company controlling the institution. Any company controlling the institution may also be required to divest the institution or the institution could be required to divest subsidiaries. The senior executive officers of a significantly undercapitalized institution may not receive bonuses or increases in compensation without prior approval and the institution is prohibited from making payments of principal or interest on its subordinated debt. In their discretion, the federal banking regulators may also impose the foregoing sanctions on an undercapitalized institution if the regulators determine that such actions are necessary to carry out the purposes of the prompt corrective provisions. If an institution's ratio of tangible capital to total assets falls below the "critical capital level" established by the appropriate federal banking regulator, the institution will be subject to conservatorship or receivership within specified time periods.

Under the implementing regulations, the federal banking regulators, including the OTS, generally measure an institution's capital adequacy on the basis of its total risk-based capital ratio (the ratio of its total capital to risk-weighted assets), Tier 1 risk-based capital ratio (the ratio of its core capital to risk-weighted assets) and leverage ratio (the ratio of its core capital to adjusted total assets). The following table shows the capital ratios required for the various prompt corrective action categories.

	<u>Well Capitalized</u>	<u>Adequately Capitalized</u>	<u>Undercapitalized</u>	<u>Significantly Undercapitalized</u>
Total risk-based capital ratio	10.0% or more	8.0% or more	Less than 8.0%	Less than 6.0%
Tier 1 risk-based capital ratio	6.0% or more	4.0% or more	Less than 4.0%	Less than 3.0%
Leverage ratio	5.0% or more	4.0% or more *	Less than 4.0% *	Less than 3.0%

* 3.0% if institution has a composite 1 CAMELS rating.

A "critically undercapitalized" savings institution is defined as an institution that has a ratio of "tangible equity" to total assets of less than 2.0%. Tangible equity is defined as core capital plus cumulative perpetual preferred stock (and related surplus) less all intangibles other than qualifying supervisory goodwill and certain purchased mortgage servicing rights. The OTS may reclassify a well capitalized savings institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with the supervisory actions applicable to institutions in the next lower capital category (but may not reclassify a significantly undercapitalized institution as critically undercapitalized) if the OTS determines, after notice and an opportunity for a hearing, that the savings institution is in unsafe or unsound condition or that the institution has received and not corrected a less-than-satisfactory rating for any CAMELS rating category.

Qualified Thrift Lender Test. The Bank is subject to OTS regulations which use the concept of a qualified thrift lender ("QTL"). A savings institution that does not meet the Qualified Thrift Lender Test ("QTL Test") must either convert to a bank charter or comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for both a national bank and savings association; (ii) the branching powers of the institution shall be restricted to those of a national bank located in the institution's home state; and (iii) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. In addition, any company that controls a savings institution that fails to qualify as a QTL will be required to register as, and to be deemed, a bank holding company subject to all of the provisions of the Bank Holding Company Act of 1956 (the "BHCA") and other statutes applicable to bank holding companies. Upon the expiration of three years from the date the institution ceases to be a QTL, it must cease any activity and dispose of any investment not permissible for a national bank.

To comply with the QTL test, a savings institution must either qualify as a "domestic building and loan association" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" in Qualified Thrift Investments. Portfolio assets are defined as total assets less intangibles, the value of property used by a savings institution in its business and liquidity investments in an amount not exceeding 20% of total assets. Qualified Thrift

Investments include loans made to purchase, refinance, construct or improve residential or manufactured housing, home equity loans, mortgage-backed securities, education, credit card and small business loans and other specified investments.

A savings institution must maintain its status as a QTL on a monthly basis in nine out of every 12 months. A savings institution that fails to maintain QTL status will be permitted to requalify once, and if it fails the QTL test a second time, it will become immediately subject to all penalties as if all time limits on such penalties had expired.

At September 30, 2008 the percentage of the Bank's portfolio assets invested in Qualified Thrift Investments was in excess of the percentage required to qualify the Bank under the QTL Test.

Dividend Restrictions. Under OTS regulations, the Bank may not pay dividends on its capital stock if its regulatory capital would thereby be reduced below the amount then required for the liquidation account established for the benefit of certain depositors of the Bank at the time of the Bank's conversion to stock form.

OTS regulations require that savings institutions submit notice to the OTS prior to making a capital distribution if (a) they would not be well capitalized after the distribution, (b) the distribution would result in the retirement of any of the institution's common or preferred stock or debt counted as its regulatory capital, or (c) like the Bank, the institution is a subsidiary of a holding company. A savings institution must apply to the OTS to pay a capital distribution if (x) the institution would not be adequately capitalized following the distribution, (y) the institution's total distributions for the calendar year exceeds the institution's net income for the calendar year to date plus its net income (less distributions) for the preceding two years, or (z) the distribution would otherwise violate applicable law or regulation or an agreement with or condition imposed by the OTS. If neither the savings institution nor the proposed capital distribution meet any of the foregoing criteria, then no notice or application is required to be filed with the OTS before making a capital distribution. The OTS may disapprove or deny a capital distribution if in the view of the OTS, the capital distribution would constitute an unsafe or unsound practice.

Under the OTS' prompt corrective action regulations, the Bank is also prohibited from making any capital distributions if, after making the distribution, the Bank would fail to meet any of the regulatory capital requirements.

In addition to the foregoing, earnings of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of cash dividends or other distributions to the Company without payment of taxes at the then current tax rate by the Bank on the amount of earnings removed from the reserves for such distributions. See "Taxation."

Safety and Soundness Standards. By statute, each federal banking agency was required to establish safety and soundness standards for institutions under its authority. The federal banking agencies, including the OTS, have released Interagency Guidelines Establishing Standards for Safety and Soundness establishing deadlines for submission and review of safety and soundness compliance plans. The guidelines require savings institutions to maintain internal controls and information systems and internal audit systems that are appropriate for the size, nature and scope of the institution's business. The guidelines also establish certain basic standards for loan documentation, credit underwriting, interest rate risk exposure and asset growth. The guidelines further provide that savings institutions should maintain safeguards to prevent the payment of compensation, fees and benefits that are excessive or that could lead to material financial loss, and should take into account factors such as comparable compensation practices at comparable institutions. Additionally, the federal banking agencies have established standards relating to the asset quality and earnings that the agencies determine to be appropriate. Under these guidelines, a savings institution should maintain systems, commensurate with its size and the nature and scope of its operations, to identify problem assets and prevent deterioration in those assets, as well as to evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital and reserves. The federal banking agencies have also issued guidelines for information security. If the OTS determines that a savings institution is not in compliance with the safety and soundness guidelines, it may require the institution to submit an acceptable compliance plan to the OTS within 30 day of receipt of a request for such a plan. Failure to submit or implement a compliance plan may subject the institution to regulatory sanctions.

Federal banking regulations also require that savings institutions adopt and maintain written policies that establish appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards, including loan-to-value limits, that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. A savings institution's real estate lending policy must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the "Real Estate Lending Guidelines") that have been adopted by the federal banking regulators. The Real Estate Lending Guidelines, among other items, call upon savings institutions to establish internal loan-to-value limits for real estate loans that are not in excess of the specified loan-to-value limits for the various types of real estate loans. The Real Estate Lending Guidelines state, however, that it may be appropriate in individual cases to originate or purchase loans with loan-to-value ratios in excess of the supervisory loan-to-value limits.

Lending Limits. With certain limited exceptions, the maximum amount that a savings institution may lend to any borrower outstanding at one time may not exceed 15% of the unimpaired capital and surplus of the institution. Loans and extensions of credit fully secured by specified readily marketable collateral (having a market value at least equal to the funds outstanding) may comprise an additional 10% of unimpaired capital and surplus. Savings institutions are additionally authorized to make loans to one borrower, for any purpose: (i) in an amount not to exceed \$500,000; or (ii) by order of the Director of OTS, in an amount not to exceed the lesser of \$30.0 million or 30% of unimpaired capital and surplus to develop residential housing, provided: (a) the purchase price of each single-family dwelling in the development does not exceed \$500,000; (b) the savings institution is and continues to be in compliance with regulatory capital requirements; (c) the loans comply with applicable loan-to-value requirements; and (d) the aggregate amount of loans made under this authority does not exceed 150% of unimpaired capital and surplus; or (iii) loans to finance the sale of real property acquired in satisfaction of debts previously contracted in good faith, not to exceed 50% of unimpaired capital and surplus of the institution.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. Federal law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and do not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further restricted as to types and amounts that are permissible.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or even \$1.0 million per day in especially egregious cases. The FDIC has the authority to recommend to the OTS Director that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Assessments. Savings institutions are required to pay assessments to the Office of Thrift Supervision to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed based upon the savings institution's (including consolidated subsidiaries) total assets, financial condition and complexity of its portfolio. The Office of Thrift Supervision assessments paid by the Bank for the fiscal year ended September 30, 2008 totaled \$87,227.

Insurance of Deposit Accounts. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The Federal Deposit Insurance Corporation established its risk-based assessment system to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 ("Reform Act"). Under this risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk category I. Unlike the other categories, Risk Category I contains further risk differentiation based on the Federal Deposit Insurance Corporation's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the Federal Deposit Insurance Corporation and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The Federal Deposit Insurance Corporation may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No insured institution may make a capital distribution if in default of its FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit approximated \$154,000, of which, no amount remains unused. The Reform Act also provided for the possibility that the Federal Deposit Insurance Corporation may pay dividends to insured institutions once the Deposit Insurance fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and for the quarter ended September 30, 2008, the annualized FICO assessment was equal to 1.10 basis points for each \$100 in domestic deposits maintained by the Bank.

The Reform Act provided the Federal Deposit Insurance Corporation with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the Federal Deposit Insurance Corporation as the level that the fund should achieve, was established by the agency at 1.25% for 2008, which remains unchanged from 2007.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments and, given recent failures, the likelihood of such an increase has risen. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of Thrift Supervision. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System, which consists of 12 district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Des Moines, the Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank of Des Moines. The Bank was in compliance with this requirement with investment in Federal Home Loan Bank of Des Moines stock at September 30, 2008 of \$3,576,300. The Federal Home Loan Bank of Des Moines serves as a reserve or central bank for its member

institutions within its assigned district. It offers advances to members in accordance with policies and procedures established by the FHFBS and the Board of Directors of the Federal Home Loan Bank of Des Moines. Long-term advances may be used for the purpose of funding loans to residential housing finance, small businesses, small farms and small agri-businesses. At September 30, 2008, the Bank had \$69.2 million in advances outstanding from the Federal Home Loan Bank of Des Moines. See "*Business—Deposit Activity and Other Sources of Funds—Borrowings.*"

Federal Reserve System. Pursuant to regulations of the Federal Reserve Board, all FDIC-insured depository institutions must maintain average daily reserves against their transaction accounts. In 2008, the Bank must maintain reserves equal to 3% on transaction accounts of over \$9.3 million up to \$43.9 million; plus 10% on the remainder. These requirements are subject to adjustment annually by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a noninterest bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets. As of September 30, 2008, the Bank met its reserve requirements applicable at that time. On October 9, 2008, the Federal Reserve Banks began paying interest on reserve balances.

Community Reinvestment Act. Under the Community Reinvestment Act (the "CRA"), as implemented by OTS regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the OTS, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take the record into account in its evaluation of certain applications by the institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank received a "satisfactory" rating as a result of its most recent CRA assessment.

Regulation of the Holding Company

General. Liberty Bancorp is a nondiversified unitary savings and loan holding company. Under prior law, a unitary savings and loan holding company, such as Liberty Bancorp, was not generally restricted as to the types of business activities in which it may engage, provided that the Bank continued to be a qualified thrift lender. See "*Qualified Thrift Lender Test.*" The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings institution after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, so long as the holding company's savings institution subsidiary continues to comply with the QTL Test. Liberty Bancorp does not qualify for the grandfathering. Liberty Bancorp is therefore limited to activities permissible for financial holding companies under the Bank Holding Company Act of 1956 and activities permitted for multiple holding companies. These include activities that are financial in nature but exclude commercial activities. Upon any non-supervisory acquisition by Liberty Bancorp of another savings institution or savings bank that meets the qualified thrift lender test and is deemed to be a savings institution by the Office of Thrift Supervision, Liberty Bancorp would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would generally be limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain activities authorized by Office of Thrift Supervision regulation. However, the Office of Thrift Supervision has issued an interpretation concluding that multiple savings and loan holding companies may also engage in activities permitted for financial holding companies.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the Office of Thrift Supervision and from acquiring or retaining control of a depository institution that is not insured by the Federal Deposit Insurance Corporation. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision considers the financial and managerial resources and future

prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The Office of Thrift Supervision may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not currently subject to specific regulatory capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions. The Bank must notify the Office of Thrift Supervision 30 days before declaring any dividend to Liberty Bancorp. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the Office of Thrift Supervision and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

Acquisition of the Company. Under the Federal Change in Bank Control Act, a notice must be submitted to the Office of Thrift Supervision if any person (including a company), or group acting in concert, seeks to acquire "control" of a savings and loan holding company or savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of Liberty Bancorp's outstanding voting stock, unless the Office of Thrift Supervision has found that the acquisition will not result in a change of control of Liberty Bancorp. Under the Change in Bank Control Act, the Office of Thrift Supervision has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

Federal and State Taxation

General. The Bank and Company file a consolidated tax return and report their taxable income on a fiscal year basis ending September 30, using the accrual method of accounting. The federal income tax laws apply to us in the same manner as other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. Our last federal audit by the Internal Revenue Service (the "IRS") was for the fiscal year ended September 30, 1993 and was audited in 1995. As a result of this audit, the IRS disallowed certain minor deductions.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional test and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and require savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately \$3.6 million of our accumulated bad debt reserves would not be recaptured into taxable income unless BankLiberty makes a "non-dividend distribution" to Liberty Bancorp as described below.

Distributions. If BankLiberty makes "non-dividend distributions" to Liberty Bancorp, such distributions will be considered to have been made from BankLiberty's unrecaptured tax bad debt reserve as of September 30, 1988 (the "base year reserve"), to the extent thereof and then from BankLiberty's supplemental reserve for losses on loans, to the extent of those reserves; and an amount based on the amount distributed, but not more than the amount of those reserves; will be included in BankLiberty's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of

stock and distributions in partial or complete liquidation. Dividends paid out of the Bank's current or accumulated earnings and profits will not be included in the Bank's income.

The amount of additional income created from a non-dividend distribution is equal to the lesser of the base year reserve and supplemental reserve for losses on loans or an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, in some situations, approximately one and one-half times the non-dividend distribution would be includable in gross income for federal income tax purposes, assuming a 34% federal corporate income tax rate. BankLiberty does not intend to pay dividends that would result in the recapture of any portion of the bad debt reserves.

Corporate Alternative Minimum Tax. The Code imposes a tax on alternative minimum taxable income at a rate of 20%. Only 90% of alternative minimum taxable income can be offset by alternative minimum tax net operating loss carryovers of which the Bank currently has none. Alternative minimum taxable income is also adjusted by determining the tax treatment of certain items in a manner that negates the deferral of income resulting from the regular tax treatment of those items. Alternative minimum tax is due when it exceeds the regular income tax. The Bank has not had a liability for a tax on alternative minimum taxable income during the past five years.

Dividends Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank own more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

State Taxation

Missouri Taxation. The Company and Bank file Missouri income tax returns. Missouri-based thrift institutions are subject to a special financial institutions tax, based on net income without regard to net operating loss carryforwards, at the rate of 7.0% of net income. This tax is in lieu of certain other state taxes on thrift institutions; on their property, capital or income, except taxes on tangible personal property owned by the Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri; social security taxes, sales taxes and use taxes. In addition, the Bank is entitled to credit against this tax all taxes paid to the State of Missouri or any political subdivision except taxes on tangible personal property owned by the Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri, social security taxes, sales and use taxes and taxes imposed by the Missouri Financial Institutions Tax Law. Missouri thrift institutions are not subject to the regular state corporate income tax. In January 2006, the Bank completed a routine sales/use tax return audit for the year ended June 30, 2005, under which we were found to owe no additional funds. The Company is subject to the regular state corporate income tax at the rate of 6.25% of taxable income derived from Missouri sources.

Item 1A. Risk Factors

Our emphasis on construction, commercial and multi-family real estate lending and commercial business lending may expose us to increased lending risks.

At September 30, 2008, we had \$90.5 million in real estate construction loans, \$102.3 million in commercial real estate loans, \$17.4 million in multi-family loans and \$17.8 million in commercial business loans, which represented 32.5%, 36.7%, 6.2% and 6.4%, respectively, of our total loan portfolio. Moreover, we intend to increase our emphasis on commercial real estate, multi-family, commercial and multi-family real estate construction and commercial business lending. These types of loans generally expose a lender to greater risk of non-payment and loss than single-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to single-family residential mortgage loans. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are

secured by non-real estate collateral that may depreciate over time. Nonperforming assets totaled \$13.1 million, or 3.91% of total assets, at September 30, 2008, which was an increase of \$8.0 million, or 2.38%, from \$5.1 million, or 1.53% of total assets, at September 30, 2007. Nonperforming assets at September 30, 2008 consisted of \$8.2 million in nonaccrual loans and \$4.9 million in foreclosed real estate. At September 30, 2008, nonaccrual loans consisted of \$3.2 million in real estate construction loans, \$5.0 million in land development loans and commercial real estate loans and consumer loans totaling \$9,000.

At September 30, 2008, we had no loans which were not currently classified as nonaccrual, 90 days past due, restructured or impaired but where known information about possible credit problems of borrowers caused management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and would result in disclosure as non-accrual, 90 days past due, restructured or impaired.

Our loan portfolio has significant concentrations among a small number of borrowers; as a result, we could be adversely affected by difficulties experienced by a small number of borrowers.

As a result of large loan concentrations among a relatively small number of borrowers, we could incur significant losses if a small number of our borrowers are unable to repay their loans to us. At September 30, 2008, we had 41 borrowers with aggregate loan balances exceeding 5% of our consolidated stockholders' equity at that date. Loans to these borrowers aggregated \$205.4 million, which represented 73.7% of our total loan portfolio at that date. These loans primarily are residential real estate development, residential real estate construction or commercial real estate loans. Aggregate loan balances to these customers ranged from \$2.0 million to \$16.8 million for our largest borrower. While we seek to control our risk and minimize losses on these large loan concentrations, if one or more of our large borrowers were to default on their loans we could incur significant losses.

A downturn in the local economy or a decline in real estate values could hurt our profits.

Nearly all of our real estate loans are secured by real estate in the Kansas City metropolitan area. In addition, through our portfolio of real estate construction loans, which includes loans to acquire land for development of residential property and loans to builders for the construction of residences, we have significant exposure to the residential construction market in the Kansas City metropolitan area. As a result, a downturn in the local economy, and, particularly, a downturn in the residential construction industry, could cause significant increases in non-performing loans, which would adversely affect our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would negatively affect our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. For a discussion of our market area, see "Item 1. Business - Market Area."

Strong competition within our market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and has occasionally forced us to offer higher deposit rates. Price competition for loans and deposits might result in our earning less on our loans and paying more on our deposits, which reduces net interest income. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. See "Item 1. Business - Competition."

We will incur additional expenses relating to our strategic plan to expand through de novo branching in the Kansas City metropolitan area.

We opened one new branch in Independence, Missouri in May 2005, a second new branch in Kansas City, Missouri in January 2006 and a third new branch in Gladstone, Missouri in September 2007. We anticipate that over the next three to five years, based on and subject to local market conditions, we will open additional branch offices in suburban Kansas City growth areas that complement our existing branch network. In connection with the expansion of our branch network, we intend to hire additional lending and other employees to support our expanded infrastructure.

While we anticipate that this expansion strategy will enhance long-term stockholder value, it is possible that our branch expansion strategy may not become accretive to our earnings over the short term. New branches generally require a significant initial capital investment and take three years or longer to become profitable. New branches require an upfront investment of between \$2.0 million and \$3.0 million for land and building expenses. Accordingly, we anticipate that, in the short term, net income will be negatively affected as we incur significant capital expenditures and noninterest expense in opening and operating new branches before the new branches can produce sufficient net interest income to offset the increased expense. In addition, the need to use capital to fund de novo branching may limit our ability to pay or increase dividends on our common stock. There also is implementation risk associated with new branches. Numerous factors will determine whether our branch expansion strategy will be successful, such as our ability to select suitable branch locations, real estate acquisition costs, competition, interest rates, managerial resources, our ability to hire and retain qualified personnel, the effectiveness of our marketing strategy and our ability to attract deposits.

Certain interest rate movements could reduce our net interest income and earnings.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the “yield curve”—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets.

The loss of our President and Chief Executive Officer could hurt our operations.

We rely heavily on our President and Chief Executive Officer, Brent M. Giles. The loss of Mr. Giles could have an adverse effect on us because, as a small community bank, Mr. Giles has more responsibility than would be typical at a larger financial institution with more employees. In addition, as a small community bank, we have fewer management-level personnel who are in position to succeed and assume the responsibilities of Mr. Giles. We have entered into a three-year employment contract with Mr. Giles.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

The Bank is subject to extensive regulation, supervision and examination by the Office of Thrift Supervision, our primary federal regulator, and by the Federal Deposit Insurance Corporation, as insurer of its deposits. Liberty Bancorp will also be subject to regulation and supervision by the Office of Thrift Supervision. Such regulation and supervision govern the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and for the depositors and borrowers of the Bank. The regulation and supervision by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation are not intended to protect the interests of investors in Liberty Bancorp common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations.

Office of Thrift Supervision regulations and anti-takeover provisions in our articles of incorporation restrict the accumulation of our common stock, which may adversely affect our stock price.

Office of Thrift Supervision regulations provide that, for a period of three years following the date of completion of the conversion, no person, acting alone, together with associates or in a group of persons acting in concert, may directly or indirectly offer to acquire or acquire the beneficial ownership of more than 10% of our common stock without the prior written approval of the Office of Thrift Supervision. In addition, Liberty Bancorp's articles of incorporation provide that, for a period of five years from the date of the conversion, no person may acquire directly or indirectly the beneficial ownership of more than 10% of any class of any equity security of Liberty Bancorp. In the event a person acquires shares in violation of this charter provision, all shares beneficially owned by such person in excess of 10% will be considered "excess shares" and will not be counted as shares entitled to vote or counted as voting shares in connection with any matters submitted to the stockholders for a vote. These factors may make it more difficult and less attractive for stockholders to acquire a significant amount of our common stock, which may adversely affect our stock price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth the location and certain additional information regarding the Bank's offices at September 30, 2008, all of which it owns.

	<u>Year Opened</u>	<u>Square Footage</u>	<u>Date of Lease Expiration</u>	<u>Owned/ Leased</u>	<u>Deposits as of September 30, 2008</u>	<u>Net Book Value as of September 30, 2008</u>
(In thousands)						
Main Office:						
16 West Franklin Liberty, Missouri	1955	6,000	N/A	Owned	\$ 77,885(1)	\$ 782
Branch Offices:						
Hwy. 92 & Bello Mondo Drive Platte City, Missouri	1973	1,500	N/A	Owned	21,322	274
1206 West Clay Plattsburg, Missouri	1974	1,650	N/A	Owned	27,373	87
9200 N.E. Barry Road Kansas City, Missouri	2001	6,160	N/A	Owned	41,086	2,774
4315 S. Noland Road Independence, Missouri	2005	3,000	N/A	Owned	27,632	1,247
8740 N. Ambassador Drive Kansas City, Missouri	2006	5,000	11/30/2021	Leased (2)	17,554	1,155
6410 N. Prospect Gladstone, Missouri	2007	4,000	N/A	Owned	6,912	2,291
Building in Progress (Future Branch Location)(3)	—	—	—	Owned	<u>—</u>	<u>1,180</u>
					<u>\$219,764</u>	<u>\$9,790</u>

(1) Includes \$15.0 million in brokered deposits serviced at the Bank's main office.

(2) The lease is on the land only. The branch building is owned by the Bank.

(3) Includes land for future branch location.

For additional information regarding premises and equipment, see note 6 of the notes to consolidated financial statements.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interest, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Common Stock and Related Stockholder Matters

The common stock of Liberty Bancorp, Incis traded on the NASDAQ Capital Market under the symbol "LBCP." As of September 30, 2008, the Company had approximately 387 stockholders of record (excluding the number of persons or entities holding stock in "street" name accounts through various brokerage firms), and 4,761,712 shares issued and 3,936,710 shares outstanding.

The following table sets forth the high and low sales prices for the common stock and dividends per share for the fiscal years ended September 30, 2008 and 2007, as reported by NASDAQ. The prices do not necessarily reflect inter-dealer prices without retail markup, markdown or commissions and may not reflect actual transmissions.

	<u>High</u>	<u>Low</u>	<u>Dividend Paid per Share</u>
Year Ended September 30, 2008			
Fourth quarter.....	\$ 9.300	\$ 7.500	\$0.025
Third quarter.....	10.395	9.010	0.025
Second quarter.....	10.650	10.000	0.025
First quarter.....	10.790	10.100	0.025
Year Ended September 30, 2007			
Fourth quarter.....	\$11.000	\$10.080	\$0.025
Third quarter.....	11.380	10.730	0.025
Second quarter.....	11.450	10.500	0.025
First quarter.....	10.730	9.960	0.025

Liberty Bancorp is subject to Missouri law, which generally permits Liberty Bancorp to pay dividends on its common stock as long as no dividend is declared or paid at a time when the net assets of the corporation are less than its stated capital or when the payment of such dividends would reduce the net assets of the corporation below its stated capital. Dividend payments by the Company depend primarily on dividends received by the Company from the Bank. See Note 13 to the Notes to the Consolidated Financial Statements for information regarding the dividend restrictions applicable to the Company and the Bank.

Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company's repurchases of its common stock during the quarter ended September 30, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2008 through July 31, 2008	—	\$ —	—	297,001
August 1, 2008 through August 31, 2008	7,666	8.36	7,666	289,335
September 1, 2008 through September 30, 2008	<u>8,000</u>	8.82	<u>8,000</u>	281,335
Total	<u>15,666</u>	\$8.59	<u>15,666</u>	

Item 6. Selected Financial Data.

This item is not applicable as the Company is a smaller reporting company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges on deposit accounts, gains on sales of loans and other loan service charges. In addition, we recognize income or losses from the sale of investments in years that we have such sales.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. Provisions for loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. We estimate the allowance balance required using past loan loss experience, the nature and value of the portfolio, information about specific borrower situations, and estimated collateral values, economic conditions and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in our judgment, should be charged off.

Expenses. The noninterest expenses we incur in operating our business consist of compensation and employee benefit expenses, occupancy expense, equipment and data processing expenses, advertising expenses, federal deposit insurance premiums and various other miscellaneous expenses.

Compensation and employee benefits consist primarily of salaries and wages paid to our employees, director and committee fees, payroll taxes, expenses for health insurance and other employee benefits.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, rent expense, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years.

Data processing expenses include fees paid to our third party data processing service and ATM expense.

Advertising expenses include expenses for print, radio and television advertisements, promotions, third-party marketing services and premium items.

Federal deposit insurance premiums are primarily payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts.

Other expenses include correspondent banking charges, operations from foreclosed real estate, professional and regulatory services, expenses for supplies, telephone and postage, contributions and donations, insurance and surety bond premiums and other fees and expenses.

We expect that noninterest expenses will increase as a result of our strategy to expand our branch network. These additional expenses will consist primarily of salaries and employee benefits and occupancy and equipment expenses. Initially, we expect that these expenses will be greater than the additional income that we generate through our new facilities. Over time, we anticipate that we will generate sufficient income to offset the expenses related to our new facilities and new employees, but we cannot provide assurances as to when or if our branch expansion strategy will be accretive to our earnings.

Critical Accounting Policies

Our accounting and reporting policies were prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") and to general practices within the financial services industry. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our financial statements and management's discussion and analysis.

Income Recognition. We recognize interest income by methods conforming to US GAAP that include general accounting practices within the financial services industry. Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding, including yield adjustments resulting from the amortization of loan costs and premiums on investment securities and accretion of loan fees and discounts on investment securities.

In the event management believes collection of all or a portion of contractual interest on a loan has become doubtful, which generally occurs after the loan is 90 days past due, the accrual of interest is discontinued. In addition, previously accrued interest deemed uncollectible that was recognized in income is reversed. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured. A non-accrual loan is restored to accrual status when it is brought current or has performed in accordance with contractual terms for a reasonable period of time, and the collectibility of the total contractual principal and interest is no longer doubtful.

Allowance for Loan Losses. Valuation allowances are established for impaired loans for the difference between the loan amount and the fair value of collateral less estimated selling costs. We consider a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The types of loans for which impairment is measured include nonaccrual income property loans (excluding those loans included in the homogenous portfolio which are collectively reviewed for impairment), large, non-accrual single-family loans and troubled debt restructurings. Such loans are generally placed on non-accrual status at the point deemed uncollectible. Impairment losses are recognized through an increase in the allowance for loan losses. See note 5 of the notes to consolidated financial statements for information regarding impaired loans at September 30, 2008 and 2007.

Allowances for loan losses are available to absorb losses incurred on loans and represent additions charged to expense, less net charge-offs. The allowances are evaluated on a regular basis by management and are based on

management's periodic review of the collectibility of loans, in light of historical experience, fair value of the underlying collateral, changes in the types and mix of loans originated and prevailing economic conditions.

Operating Strategy

Our mission is to operate and further expand a profitable and diversified community banking franchise. We plan to achieve this by executing our strategy of:

- expanding through de novo branching in the Kansas City metropolitan area; and
- continuing to transform our balance sheet to emphasize assets and liabilities that allow us to increase our net interest margin while reducing our exposure to risk from interest rate fluctuations.

Expansion Through De Novo Branching. In 2004, the Board of Directors, with the assistance of our Chief Executive Officer hired in September 2003, determined to pursue a strategic plan to enhance long-term shareholder value through franchise growth. The strategic plan calls for expansion through de novo branching in the Kansas City metropolitan area to enable us to take advantage of the opportunities afforded by recent and forecasted economic growth in that market. We believe that the increased asset size to be achieved through the planned expansion will enable us to leverage better efficiencies and technology but still attract customers based on personal service and relationships. Our first new branch was opened in Independence, Missouri in May 2005, a second new branch was opened in Kansas City, Missouri in January 2006, and a third new branch was opened in Gladstone, Missouri in September 2007. We anticipate that over the next three to five years, based on and subject to local market conditions, we will open additional branch offices in suburban Kansas City growth areas that complement our existing branch network:

While we anticipate that this expansion strategy will enhance long-term shareholder value, we cannot assure you when or if our branch expansion strategy will be accretive to our earnings. New branches generally require a significant initial capital investment and take approximately three years or longer to become profitable. New branches require an upfront investment of between \$2.0 million and \$3.0 million each for land and building expenses. Accordingly, we anticipate that, in the short term, net income will be negatively affected as we incur significant capital expenditures and noninterest expense in opening and operating new branches before the new branches can produce sufficient net interest income to offset the increased expense. In addition, the need to use capital to fund de novo branching may limit our ability to pay or increase dividends on our common stock. There also is implementation risk associated with new branches. Numerous factors will determine whether our branch expansion strategy will be successful, such as our ability to select suitable branch locations, real estate acquisition costs, competition, interest rates, managerial resources, our ability to hire and retain qualified personnel, the effectiveness of our marketing strategy and our ability to attract deposits.

Continued Transformation of Our Balance Sheet. Our strategic plan also calls for us to transform our balance sheet to emphasize assets and liabilities that allow us to increase our net interest margin while reducing our exposure to risk from interest rate fluctuations:

With respect to our assets, our strategy has been, and continues to be, to increase the percentage of assets invested in commercial business, commercial real estate and multi-family loans, which tend to have higher yields than traditional single-family residential mortgage loans and which have shorter terms to maturity or adjustable interest rates. In addition, in recent years we have sought to increase our originations of real estate construction loans, which also have short terms and adjustable interest rates, although in the future we will seek to maintain construction loans approximately at current levels so as not to unduly concentrate credit risk in the real estate construction market. At the same time, we have sought to decrease our reliance on single-family residential mortgage loans. Currently, we sell substantially all new, fixed-rate conforming single-family loans in the secondary market.

Commercial real estate, commercial business and multi-family real estate loans provide us with the opportunity to earn more income because they tend to have higher interest rates than residential mortgage loans. In addition, these loans are beneficial for interest rate risk management because they typically have shorter terms and

adjustable interest rates. There are many multi-family and commercial properties and businesses located in our market area, and with the additional capital raised in the offering we intend to pursue the larger lending relationships associated with these opportunities. To facilitate our growth, we have added expertise in our commercial loan department in recent years through the hiring of experienced personnel, including a new chief lending officer.

As a result of these efforts, our commercial real estate loans have increased from \$16.2 million, or 12.18% of total loans, at September 30, 2001 to \$102.3 million, or 36.73% of total loans, at September 30, 2008. In addition, commercial business loans have increased from \$2.7 million, or 2.04% of total loans, at September 30, 2001 to \$17.8 million, or 6.39% of total loans, at September 30, 2008, and multi-family real estate loans have increased from \$3.4 million, or 2.56% of total loans, at September 30, 2001 to \$17.4 million, or 6.23% of total loans, at September 30, 2008. The percentage of our total loan portfolio comprised of residential mortgage loans has decreased in recent years, amounting to 28.71%, 20.71%, 18.48%, 15.64% and 14.62% at September 30, 2004, 2005, 2006, 2007 and 2008, respectively.

With respect to liabilities, our strategy is to emphasize transaction and money market accounts, as well as shorter term certificates of deposit. We value these types of deposits because they represent longer-term customer relationships and a lower cost of funding compared to longer-term certificates of deposit. We aggressively seek transaction and money market deposits through competitive products and pricing and targeted advertising. In addition, we offer business checking accounts for our commercial customers. We also hope to increase core deposits through our de novo branching strategy.

Balance Sheet Analysis

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate construction loans, single-family residential loans and multi-family and commercial real estate loans. To a lesser extent, we also originate commercial business and consumer loans.

At September 30, 2008, construction loans totaled \$90.5 million and represented 32.47% of total loans, compared to \$125.8 million, or 47.12% of total loans, at September 30, 2007. The size of our real estate construction loan portfolio has decreased \$35.3 million over this period due primarily to the soft real estate market. Commercial real estate construction loans decreased by \$17.6 million, or 34.54%, from \$51.0 million at September 30, 2007 to \$33.4 million at September 30, 2008. Development loans increased by \$262,000, or .72%, from \$36.4 million at September 30, 2007 to \$36.7 million at September 30, 2008. Single-family – spec loans decreased by \$16.1 million, or 54.84%, from \$29.3 million at September 30, 2007 to \$13.2 million at September 30, 2008. Single-family – custom construction loans decreased by \$751,000, or 10.59%, from \$7.1 million at September 30, 2007 to \$6.3 million at September 30, 2008. Decreases in single-family spec and custom construction loans reflect loan portfolio adjustments to current market conditions.

Single-family residential loans totaled \$40.7 million and represented 14.62% of total loans at September 30, 2008, compared to \$41.7 million, or 15.64% of total loans, at September 30, 2007. The Bank has pursued the strategy of selling substantially all new, fixed-rate residential loans we originate because of the relatively low yields that have been attainable on residential loans over the last several years and to decrease the interest rate risk resulting from the retention of longer term fixed-rate loans.

Commercial real estate loans increased by \$45.1 million, or 78.83%, to \$102.3 million and represented 36.73% of total loans at September 30, 2008, compared to \$57.2 million, or 21.44% of total loans, at September 30, 2007. These increases were due to our strategic decision to emphasize lending on income producing property projects. Currently, the Bank offers a variety of commercial real estate products to owner occupants and investors. Our primary commercial real estate lending focus areas are retail, office and industrial uses.

Multi-family loans totaled \$17.4 million and represented 6.23% of total loans at September 30, 2008, compared to \$12.2 million, or 4.57% of total loans, at September 30, 2007.

We also originate a variety of consumer loans and home equity loans, as well as loans secured by deposit accounts, automobile loans and other miscellaneous loans. Consumer loans totaled \$9.9 million and represented

3.56% of total loans at September 30, 2008, compared to \$12.0 million, or 4.51% of total loans, at September 30, 2007. The decrease in consumer loans was due primarily to a decrease in home equity loans.

Commercial business loans decreased to \$17.8 million or 6.39% of total loans at September 30, 2008 from \$18.0 million, or 6.72% of total loans at September 30, 2007.

The following table sets forth certain information at September 30, 2008, regarding the dollar amount of loan principal repayments coming due during the years indicated. The table below does not include any estimate of prepayments, which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Due during the Year Ended September 30,			Due After			Total
	2009	2010	2011	through 5 years after 9/30/08	10 through 15 years after 9/30/08	15 years after 9/30/08	
Single-family mortgage loans	\$ 1,288	\$ 1,368	\$ 1,454	\$ 3,180	\$ 9,872	\$ 13,368	\$ 40,727
Multi-family mortgage loans	549	584	620	1,356	4,210	5,701	17,368
Real estate construction loans	71,865	18,617	—	—	—	—	90,482
Commercial real estate loans	2,462	2,636	2,825	6,249	20,013	28,264	102,364
Loans secured by deposit accounts	142	—	—	—	—	—	142
Other consumer loans	2,164	2,341	2,533	2,740	—	—	9,778
Commercial business loans	3,095	3,312	3,545	7,853	—	—	17,805
Total gross loans	<u>\$81,565</u>	<u>\$28,858</u>	<u>\$10,977</u>	<u>\$21,378</u>	<u>\$34,095</u>	<u>\$47,333</u>	<u>\$278,666</u>

(Dollars in thousands)

The following table sets forth the dollar amount of all loans at September 30, 2008, that are due after September 30, 2009 which have either fixed interest rates or adjustable interest rates.

	Fixed Rates		Adjustable Rates		Total
	(Dollars in thousands)				
Single-family mortgage loans	\$ 25,056	\$ 14,383	\$ 39,439		
Multi-family mortgage loans	14,623	2,196	16,819		
Real estate construction loans	8,157	10,460	18,617		
Commercial real estate loans	78,715	21,187	99,902		
Loans secured by deposit accounts	—	—	—		
Other consumer loans	1,048	6,566	7,614		
Commercial business loans	7,882	6,882	14,710		
Total gross loans	<u>\$135,427</u>	<u>\$61,674</u>	<u>\$197,101</u>		

The following table shows our loan origination, sale and other activity during the years indicated.

	For the Years Ended September 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In thousands)		
Total net loans at the beginning of year.....	<u>\$232,308</u>	<u>\$200,222</u>	<u>\$163,843</u>
Loans originated for portfolio:			
Single and multi-family mortgage loans.....	22,752	25,703	17,437
Real estate construction loans.....	50,600	64,541	74,792
Commercial real estate loans.....	47,339	27,002	33,167
Commercial business loans.....	4,047	16,657	9,179
Loans secured by deposit accounts.....	78	212	295
Home equity loans.....	1,452	3,460	4,277
Automobile and other consumer loans.....	300	1,036	1,028
Total loans originated.....	<u>\$126,568</u>	<u>\$138,611</u>	<u>\$140,175</u>
Deduct:			
Principal loan repayment and other, net.....	<u>99,904</u>	<u>106,790</u>	<u>103,326</u>
Loan charge-offs, net of (recoveries).....	<u>2,259</u>	<u>(265)</u>	<u>470</u>
Total net loans at end of year.....	<u>\$256,713</u>	<u>\$232,308</u>	<u>\$200,222</u>
Loans originated for sale.....	<u>\$ 24,739</u>	<u>\$ 20,354</u>	<u>\$ 17,656</u>
Loans sold in secondary market.....	<u>\$ 24,581</u>	<u>\$ 20,094</u>	<u>\$ 19,281</u>

Loans Held for Sale. Loans held for sale increased \$158,000 to \$877,000 at September 30, 2008.

Securities. Our securities portfolio consists primarily of government agency securities, municipal securities and mortgage-backed securities. Although municipal securities generally have greater credit risk than government agency securities, they generally have higher yields than government securities of similar duration. Securities available for sale decreased from \$48.0 million at September 30, 2007 to \$26.1 million at September 30, 2008 due to sales, maturities and calls, partially offset by purchases. Mortgage-backed securities available for sale decreased from \$19.3 million at September 30, 2007 to \$14.0 million at September 30, 2008 due to principal repayments.

The following table sets forth the Bank's mortgage-backed securities purchases and sales for the years indicated.

	Year Ended September 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In thousands)		
Purchased.....	\$ —	\$ —	\$3,452
Sold.....	—	—	—

The following table sets forth the carrying values and fair values of our securities and mortgage-backed securities portfolio at the dates indicated.

	At September 30,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
Securities available for sale:						
Federal agency obligations.....	\$13,422	\$13,903	\$34,555	\$34,848	\$29,711	\$29,543
State and municipal obligations	11,715	11,679	12,839	12,741	6,435	6,340
Mortgage-backed securities	14,007	13,989	19,621	19,277	24,863	24,217
Equity securities.....	544	471	395	394	—	—
Total securities available for sale	<u>\$39,688</u>	<u>\$40,042</u>	<u>\$67,410</u>	<u>\$67,260</u>	<u>\$61,009</u>	<u>\$60,100</u>
Weighted-average rate on securities (1) ...	4.69%		4.72%		4.44%	
Weighted-average rate on mortgage-backed securities	4.33%		4.31%		4.29%	

(1) Weighted-average yields are not presented on a tax-equivalent basis.

At September 30, 2008, we had no investments in a single company or entity (other than U.S. Government-sponsored entity securities) that had an aggregate book value in excess of 10% of our equity.

The following table sets forth the maturities and weighted-average yields of debt securities at September 30, 2008. Weighted-average yields are not presented on a tax-equivalent basis.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
	(Dollars in thousands)									
Securities available for sale:										
State and municipal obligations.....	\$1,602	4.16%	\$1,920	4.75%	\$3,586	4.17%	\$4,571	5.50%	\$11,679	4.79%
Federal agency obligations.....	3,035	4.59	10,868	4.84	—	—	—	—	13,903	4.79
Mortgage-backed securities	1,203	4.06	7,192	4.30	458	4.00	4,816	4.54	13,669	4.35
Collateralized mortgage obligations.....	—	—	—	—	—	—	320	3.38	320	3.38
Total securities available for sale	<u>\$5,840</u>	4.36%	<u>\$19,980</u>	4.64%	<u>\$4,044</u>	4.15%	<u>\$9,707</u>	4.95%	<u>\$39,571</u>	4.63%

Premises and Equipment. Premises and equipment, net, increased from \$8.7 million at September 30, 2007 to \$9.8 million at September 30, 2008 due primarily to the purchase and renovation of a commercial building for a future branch, partially offset by depreciation expense.

Other Assets. The increase in bank-owned life insurance represents the change in cash surrender value of \$437,000. Accrued interest receivable decreased due to lower securities balances and lower yields on loans, partially offset by higher loan balances.

Deposits. Our primary source of funds is our deposit accounts, which are comprised of noninterest-bearing NOW accounts, interest-bearing NOW accounts, money market accounts, statement accounts and certificates of deposit. These deposits are provided primarily by individuals within our market areas. Deposits decreased \$32.5 million, or 12.9%, to \$219.8 million at September 30, 2008 from \$252.3 million at September 30, 2007. The decrease in deposits for the year ended September 30, 2008 was primarily due to a decrease in certificate of deposit accounts less than twelve month and to a lesser extent, a decrease in money market accounts, partially offset by an

increase in certificate of deposit accounts greater than twelve months and noninterest-bearing checking accounts. Brokered deposits increased \$1.0 million to \$15.0 million at September 30, 2008 from \$14.0 million at September 30, 2007. The amount of brokered deposits in the future will be contingent upon current market rates as compared to retail deposits and FHLB advances.

The following table sets forth average balances and average rates of our deposit products for the years indicated. For purposes of this table, average balances have been calculated using month-end balances. Management does not believe that the use of month-end balances instead of daily average balances has caused any material differences in the information presented.

	Years Ended September 30,					
	2008		2007		2006	
	Average, Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing NOW accounts	\$ 14,873	—%	\$12,458	—%	\$11,633	—%
Interest-bearing NOW accounts	23,884	1.28	24,331	1.88	25,224	1.83
Money market accounts.....	67,101	3.31	38,052	4.47	21,290	2.38
Statement accounts	6,995	0.30	7,336	0.31	9,059	0.34
Certificates of deposit.....	<u>118,759</u>	<u>4.02</u>	<u>143,665</u>	<u>4.80</u>	<u>126,275</u>	<u>3.97</u>
Total	<u>\$231,612</u>	<u>3.16</u>	<u>\$225,842</u>	<u>4.02</u>	<u>\$193,481</u>	<u>3.10</u>

The following table sets forth the balances of our deposit products at the dates indicated.

	At September 30,					
	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Noninterest-bearing NOW accounts	\$ 14,869	6.8%	\$ 13,617	5.4%	\$11,896	6.0%
Interest-bearing NOW accounts	21,695	9.9	21,368	8.5	25,234	12.7
Money market accounts.....	61,371	27.9	68,482	27.1	13,617	6.9
Statement accounts	7,258	3.3	7,200	2.9	7,702	3.9
Certificates of deposit.....	<u>114,571</u>	<u>52.1</u>	<u>141,638</u>	<u>56.1</u>	<u>140,022</u>	<u>70.5</u>
Total	<u>\$219,764</u>	<u>100.0%</u>	<u>\$252,305</u>	<u>100.0%</u>	<u>\$198,471</u>	<u>100.0%</u>

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2008. Jumbo certificates of deposit require minimum deposits of \$100,000.

<u>Maturity Period</u>	<u>Certificates of Deposits</u> (In thousands)
Three months or less	\$25,903
Over three through six months	7,912
Over six through 12 months	5,371
Over 12 months	<u>5,018</u>
Total.....	<u>\$44,204</u>

The following table sets forth time deposits classified by rates at the dates indicated.

	At September 30,		
	2008	2007	2006
	(In thousands)		
1.00 - 1.99%	\$ —	\$ —	\$ 5
2.00 - 2.99	60,858	300	2,254
3.00 - 3.99	34,745	9,249	33,373
4.00 - 4.99	15,733	60,152	44,344
5.00 - 5.99	<u>3,235</u>	<u>71,937</u>	<u>60,046</u>
	<u>\$114,571</u>	<u>\$141,638</u>	<u>\$140,022</u>

The following table sets forth the amount and maturities of time deposits at September 30, 2008.

	Amount Due					Total	Percent of Total Certificate Accounts
	One Year or Less	1-2 Years	2-3 Years	3-4 Years	4-5 Years		
	(In thousands)						
2.00 - 2.99%	\$58,727	\$ 2,131	\$ —	\$ —	\$ —	\$ 60,858	53.1%
3.00 - 3.99	18,235	9,764	4,246	318	2,182	34,745	30.3
4.00 - 4.99	10,616	2,785	880	1,409	43	15,733	13.8
5.00 - 5.99	<u>1,997</u>	<u>163</u>	<u>1,067</u>	<u>8</u>	<u>—</u>	<u>3,235</u>	<u>2.8</u>
	<u>\$89,575</u>	<u>\$14,843</u>	<u>\$6,193</u>	<u>\$1,735</u>	<u>\$2,225</u>	<u>\$114,571</u>	<u>100.0%</u>

The following table sets forth deposit activity for the years indicated.

	Years Ended September 30,	
	2008	2007
	(In thousands)	
Net deposits (withdrawals) before interest credited	\$(39,459)	\$45,803
Interest credited	<u>6,917</u>	<u>8,032</u>
Net increase (decrease) in deposits	<u>\$(32,542)</u>	<u>\$53,835</u>

Borrowings. We utilize borrowings from the Federal Home Loan Bank of Des Moines and securities sold under agreement to repurchase to supplement our supply of funds for loans and investments and to meet deposit withdrawal requirements.

The following table sets forth certain information regarding short-term borrowings by the Bank at the end of and during the years indicated:

	At September 30,		
	2008	2007	2006
	(Dollars in thousands)		
Outstanding advances from Federal Home Loan Bank	\$48,100	\$22,056	\$23,833
Weighted-average rate paid on advances from Federal Home Loan Bank	2.13%	4.90%	4.19%
Outstanding securities sold under agreement to repurchase	\$ 813	\$ 681	\$ 3,384
Weighted-average rate paid on securities sold under agreement to repurchase	4.45%	3.41%	3.44%

	Years Ended September 30,		
	2008	2007	2006
	(Dollars in thousands)		
Maximum outstanding advances from Federal Home Loan Bank at any month end	\$53,100	\$26,083	\$35,633
Weighted-average rate paid on advances from Federal Home Loan Bank (1)	3.08%	4.84%	3.97%
Average advances from Federal Home Loan Bank	\$44,657	\$19,904	\$22,167
Maximum outstanding securities sold under agreement to repurchase at any month end	\$ 1,683	\$ 5,164	\$ 4,400
Weighted-average rate paid on securities sold under agreement to repurchase (2)	3.96%	3.39%	3.18%
Average securities sold under agreement to repurchase	\$1,427	\$1,573	\$2,224

- (1) The weighted-average rate paid is based on the weighted-average balances determined on a monthly basis.
(2) The weighted-average rate paid is based on the weighted-average balances determined on a daily basis.

Federal Home Loan Bank of Des Moines borrowings increased \$42.8 million, or 162.0%, to \$69.2 million at September 30, 2008 from \$26.4 million at September 30, 2007. The advances outstanding as of September 30, 2008 mature in 2008 through 2012.

Securities sold under agreement to repurchase decreased \$409,000 for the year ended September 30, 2008 due to lower balances from existing customers, partially offset by one new customer. Accrued interest on deposits decreased primarily due to a lower average balance and rate on money market and certificate balances. Other liabilities decreased primarily as a result of lower accrued bonuses, accrued accounting and retirement plan expense, partially offset by higher accrued deposit insurance assessments, real estate taxes and vacation pay.

Results of Operations for the Years Ended September 30, 2008 and 2007

Overview.

	Years Ended September 30,			% Change	% Change
	2008	2007	2006	2008/2007	2007/2006
	(Dollars in thousands)				
Net earnings.....	\$1,922	\$1,944	\$1,463	(1.1)%	32.9%
Return on assets (1).....	0.57%	0.63%	0.56%	(9.5)	12.5
Return on stockholders' equity (2).....	4.18	3.94	5.47	6.1	(28.0)
Stockholders' equity-to-assets ratio (3).....	13.61	16.00	10.16	(14.9)	57.5
Dividend payout ratio (4).....	20.97	23.86	29.86	(12.1)	(20.1)

(1) Net earnings divided by average assets.

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

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

(4) Represents dividends paid to shareholders as a percent of net earnings. Does not include dividends waived by Liberty Savings Mutual Holding Company.

2008 vs. 2007. Net earnings decreased \$23,000, or 1.18% for the year ended September 30, 2008 compared to the year ended September 30, 2007. The decrease in net earnings was due primarily to a \$407,000, or 1.98%, decrease in interest income, a \$1.28 million increase in provision for loan losses and a \$341,000, or 4.24%, increase in noninterest expense, partially offset by a \$1.1 million, or 10.6%, decrease in interest expense, a \$646,000, or 43.7%, increase in noninterest income and a \$248,000, or 25.9% decrease in income tax expense. Net interest income increased primarily as a result of an increase in loans receivable and a higher interest rate spread. Noninterest income in 2008 increased primarily due to an increase in the cash surrender value of life insurance, gains on sale of securities and higher deposit account service charges. Noninterest expense increased primarily due to an increase in equipment and data processing, FDIC premium expense and other expenses, partially offset by a decrease in correspondent banking expense.

Net Earnings.

2008 vs. 2007. Net earnings remained substantially the same at \$1.9 million for both 2007 and 2008, with only a slight decrease of \$23,000. The slight decrease was due to a higher provision for loan losses and higher noninterest expense, partially offset by higher net interest income, higher noninterest income and lower income tax expense.

Net Interest Income.

2008 vs. 2007. Net interest income increased by \$703,000, or 7.0%, from \$10.1 million for 2007 to \$10.8 million for 2008 as a result of a higher interest rate spread, partially offset by a decrease in net interest-earning assets. The interest rate spread increased from 2.97% for 2007 to 3.25% for 2008. The decrease in net interest-earning assets is due to an increase of \$34.5 million, or 13.5%, in average interest-bearing liabilities, partially offset by an increase of \$20.2 million, or 7.0%, in average interest-earning assets.

Interest on loans receivable increased as a result of a higher weighted-average balance, partially offset by a lower average yield. The weighted average yield on loans decreased from 7.91% for 2007 to 7.03% for 2008.

Interest on mortgage-backed securities decreased due to a lower average balance.

Interest on securities decreased as a result of a lower average balance and, to a lesser extent, a lower average yield. Interest on other interest-earning assets also decreased as a result of a lower average balance and yield.

Interest on deposits decreased as a result of lower weighted-average rate, partially offset by a higher average balance. During 2008, the Bank increased lower cost FHLB advances as opposed to higher cost deposits.

Interest on advances increased due to a higher average balance, partially offset by a lower average rate. During 2008, advances were used to manage liquidity in a competitive deposit market.

Average Balances and Yields. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the years indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the years presented. For purposes of this table, average balances have been calculated using month-end balances and, to a lesser extent, daily balances, and nonaccrual loans are included in average balances only. Management does not believe that the use of month-end balances instead of daily average balances has caused any material differences in the information presented. No tax equivalent adjustments were made. Nonaccruing loans have been included in the table as loans carrying a zero yield.

	Years Ended September 30,								
	2008			2007			2006		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans receivable.....	\$247,024	\$17,356	7.03%	\$217,841	\$ 17,233	7.91%	\$187,818	\$14,253	7.59%
Mortgage-backed securities.....	16,814	705	4.19	22,229	933	4.20	25,216	995	3.95
Securities.....	41,564	1,952	4.70	43,988	2,076	4.72	29,117	1,170	4.02
Other interest-earning assets.....	<u>5,343</u>	<u>144</u>	2.68	<u>6,484</u>	<u>321</u>	4.95	<u>5,768</u>	<u>246</u>	4.27
Total interest-earning assets.....	<u>310,745</u>	<u>20,157</u>	6.49	<u>290,542</u>	<u>20,563</u>	7.08	<u>247,919</u>	<u>16,664</u>	6.72
Interest-bearing liabilities:									
Deposits.....	231,612	7,321	3.16	225,842	9,084	4.02	193,481	6,007	3.10
Federal Home Loan Bank advances.....	56,607	2,005	3.54	27,189	1,333	4.90	34,807	1,497	4.30
Securities sold under agreement to repurchase..	1,427	58	4.05	2,097	77	3.69	2,224	71	3.18
ESOP note payable.....	—	—	—	—	—	—	327	25	7.66
Total interest-bearing liabilities.....	<u>\$289,646</u>	<u>9,384</u>	3.24	<u>\$255,128</u>	<u>10,494</u>	4.11	<u>\$230,839</u>	<u>7,600</u>	3.29
Net interest income before provision for loan losses....		<u>\$10,773</u>			<u>\$10,069</u>			<u>\$ 9,064</u>	
Net interest-earning assets.....	<u>\$21,099</u>			<u>\$ 35,414</u>			<u>\$ 17,080</u>		
Interest rate spread.....			<u>3.25%</u>			<u>2.97%</u>			<u>3.43%</u>
Net yield on average interest-earning assets.....			<u>3.47%</u>			<u>3.47%</u>			<u>3.66%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities..	<u>107.28%</u>			<u>113.88%</u>			<u>107.40%</u>		

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate/volume column shows the effects attributable to changes in both rate and volume (changes in rate multiplied by changes in volume). The total column represents the sum of the prior columns.

	Year Ended September 30, 2008 vs. 2007				Year Ended September 30, 2007 vs. 2006			
	Increase (Decrease) due to:				Increase (Decrease) due to:			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
(Dollars in thousands)								
Interest income:								
Loans receivable	\$2,310	\$(1,929)	\$(258)	\$123	\$2,279	\$ 605	\$ 96	\$2,980
Mortgage-backed securities	(226)	(2)	—	(228)	(118)	63	(7)	(62)
Securities	(115)	(10)	1	(124)	598	204	104	906
Other interest-earning assets ...	(57)	(147)	26	(178)	31	39	5	75
Total interest-earning assets	<u>\$1,912</u>	<u>\$(2,088)</u>	<u>\$(231)</u>	<u>\$(407)</u>	<u>\$2,790</u>	<u>\$ 911</u>	<u>\$198</u>	<u>\$3,899</u>
Interest expense:								
Deposits	232	(1,947)	(49)	(1,764)	1,003	1,777	297	3,077
Federal Home Loan Bank advances	1,441	(369)	(399)	673	(328)	209	(45)	(164)
Securities sold under agreement to repurchase	(31)	26	(14)	(19)	(4)	11	(1)	6
ESOP note payable	—	—	—	—	(25)	(25)	25	(25)
Total interest-bearing liabilities	<u>1,642</u>	<u>(2,290)</u>	<u>(462)</u>	<u>\$(1,110)</u>	<u>646</u>	<u>1,972</u>	<u>276</u>	<u>2,894</u>
Change in net interest income	<u>\$ 270</u>	<u>\$ 202</u>	<u>\$ 231</u>	<u>\$ 703</u>	<u>\$2,144</u>	<u>\$(1,061)</u>	<u>\$(78)</u>	<u>\$1,005</u>

Provision for Loan Losses.

2008 vs. 2007. Provision for loan losses increased from \$602,000 for 2007 to \$1.9 million for 2008. At September 30, 2008, the allowance for loan losses was \$2.6 million, or .94% of the gross loan portfolio, compared to \$3.0 million or 1.13% of the loan portfolio at September 30, 2007. At September 30, 2008, loans secured by non-construction single-family properties totaled 14.6% of total loans and 5.4% of the allowance for loan losses was allocated to these loans. All other loans totaled 85.4% of the portfolio and 94.6% of the allowance for loan losses.

During the year ended September 30, 2008, we recorded a provision for loan losses of \$1.9 million, an increase of 212.4% from the provision for loan losses of \$602,000 recorded for the year ended September 30, 2007. The increased provision is the result of higher charge-offs and an increase in classified assets and, to a lesser extent, growth of the loan portfolio.

Nonaccrual loans amounted to \$8.2 million and \$3.4 million at September 30, 2008 and 2007, respectively. Net loan charge-offs amounted to \$2.3 million during 2008 compared to net recoveries of \$265,000 during 2007. The majority of the net loan charge-offs in 2008 were due to losses related to real estate construction loans.

Noninterest Income. The following table shows the components of noninterest income and the percentage changes for the years ended September 30, 2008 and 2007.

	<u>Years Ended September 30,</u>		<u>% Change</u> <u>2008/2007</u>
	<u>2008</u>	<u>2007</u>	
	(Dollars in thousands)		
Loan service charges	\$ 64	\$ 90	(28.9)%
Gain on sale of securities available for sale..	135	—	NM
Gain on sale of loans	319	247	28.8
Change in cash surrender value of BOLI.....	437	101	332.2
Deposit account service charges.....	<u>1,169</u>	<u>1,039</u>	12.5
Total	<u>\$2,124</u>	<u>\$1,477</u>	43.7%

NM = Not meaningful

2008 vs. 2007. Noninterest income increased from \$1.5 million for 2007 to \$2.1 million for 2008 due to gains on sale of securities, an increase in the cash surrender value of bank-owned life insurance, deposit account service charges and gains on sale of loans, partially offset by a decrease in loan service charges.

Gains on sale of securities, an increase in the cash surrender value of bank-owned life insurance, deposit account service charges and gains on sale of loans, partially offset by a decrease in loan service charges.

The Bank recognized gains on sale of loans of \$319,000 and \$247,000 for the years ended September 30, 2008 and 2007, respectively. During 2008 and 2007, we sold loans to secondary market investors totaling \$24.6 million and \$20.1 million, respectively.

Noninterest Expense. The following table shows the components of noninterest expense and the percentage changes for the years ended September 30, 2008 and 2007.

	Years Ended September 30		% Change
	2008	2007	2008/2007
	(Dollars in thousands)		
Compensation and benefits.....	\$4,446	\$4,445	0.02%
Occupancy expense	673	625	7.8
Equipment and data processing expense	931	798	16.6
Operations from foreclosed real estate, net.....	362	356	1.6
FDIC premium expense.....	135	41	228.4
Professional and regulatory services.....	434	408	6.5
Advertising	250	255	(1.7)
Correspondent banking charges.....	234	260	(10.3)
Supplies	136	138	(1.0)
Other.....	786	720	9.2
Total noninterest expense	<u>\$8,387</u>	<u>\$8,046</u>	4.2%
Efficiency ratio (1).....	<u>65.0%</u>	<u>69.7%</u>	

(1) Computed as noninterest expense divided by the sum of net interest income and noninterest income.

2008 vs. 2007. Noninterest expense increased from \$8.0 million for 2007 to \$8.4 million for 2008. Compensation and benefit expense stayed virtually the same for 2008 and 2007. Primarily, lower compensation expense in the construction and commercial loan departments and lower expenses for the ESOP plan, were offset primarily by the opening of a new branch in Gladstone, Missouri, merit salary increases and higher stock option expense and restricted stock award expense.

During 2008, the Company recognized stock option expense and restricted stock award expense of \$75,000 and \$247,000, respectively. During 2007, the Company recognized stock option expense and restricted stock award expense of \$68,000 and \$163,000, respectively. At September 30, 2008, total unrecognized stock option expense was approximately \$144,000 and is expected to be recognized over the weighted-average period of 3.02 years. At September 30, 2008, total unrecognized restricted stock award expense was \$843,000 and is expected to be recognized over the next 3.41 years.

Occupancy expense increased due primarily to higher building depreciation expense on new branch offices and utility expense. Equipment and data processing expense increased due primarily to higher computer and furniture depreciation expense due to the Gladstone branch, higher data processing expense and higher service agreement expense, partially offset by lower website and office equipment depreciation expense. FDIC premium expense increased due to a higher assessment as a result of a risk-based assessment system which considers the supervisory rating and certain financial ratios of each financial institution and related expiring credits. There were also modest increases in operations from foreclosed real estate, net and professional and regulatory services expense and a small decrease in advertising and supplies expense. Correspondent banking charges decreased due to the renegotiation of contracts with vendors. Other expense increased due primarily to higher liability insurance, telephone and miscellaneous expense, partially offset primarily by lower consumer loan expenses and stock administration expense.

Income Taxes.

2008 vs. 2007. Income tax expense for the year ended September 30, 2008 was \$706,000 compared to \$954,000 for the year ended September 30, 2007. Income taxes decreased due to lower pre-tax earnings as well as an increase in non-taxable municipal bond income and an increase in the cash surrender value of bank-owned life insurance which is also non-taxable.

Stockholders' Equity.

2008 vs. 2007. Stockholders' equity increased by \$6.2 million from \$50.2 million at September 30, 2007 to \$44.0 million at September 30, 2008 primarily due to the repurchase of common stock totaling \$8.6 million and the payment of dividends of \$403,000, partially offset primarily by net earnings of \$1.9 million, the amortization of ESOP and stock-based compensation expenses of \$618,000 and unrealized gains on investments and mortgage-backed securities, net of taxes of \$318,000.

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available for sale securities that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans.

When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a 5% penalty is assessed, and a written notification of the late payment is sent. If payment is not received by the 30th day of delinquency, the borrower is contacted by telephone, payment is requested and efforts are made to formulate an affirmative plan to cure the delinquency. After a loan becomes past due 60 days, we generally provide a final notice that we will initiate legal proceedings in 30 days, after which foreclosure procedures commence to obtain the real property securing the loan. Generally, when a loan becomes 90 days past due, the loan is placed on non-accrual status. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management reports to the Board of Directors monthly regarding the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

Real estate acquired by the Bank as a result of foreclosure is classified as foreclosed real estate until such time as it is sold. When such property is acquired, a new appraisal is obtained and it is recorded at the lower of its unpaid principal or fair value, less estimated selling costs. Any required write-down of the loan to its fair value upon foreclosure is charged against the allowance for losses.

Analysis of Nonperforming and Classified Assets. We consider repossessed assets and loans that are 90 days or more past due to be non-performing assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent, at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that we acquire as a result of foreclosure or deed-in-lieu of foreclosure is classified as foreclosed assets until it is sold. When property is acquired, it is initially recorded at the lower of its cost, or market, less estimated selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges against income.

The following table sets forth information with respect to our nonperforming assets at the dates indicated.

	At September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Loans accounted for on a nonaccrual basis: (1)					
Commercial real estate loans	\$ 3,233	\$ —	\$ —	\$ —	\$ —
Single and multi-family loans	—	104	828	351	723
Real estate construction spec loans	3,193	1,932	304	556	—
Land development loans	1,784	1,386	—	—	—
Consumer	9	—	349	—	—
Total nonaccrual loans	8,219	3,422	1,481	907	723
Accruing loans which are contractually past due 90 days or more – single-family loans (1)	—	—	58	—	—
Total nonaccrual and 90 days or more past due loans	8,219	3,422	1,539	907	723
Other impaired loans - single family 1-4 units, investment property	—	—	—	403	2,933
Other impaired loans - single family, spec	—	—	2,682	—	—
Foreclosed real estate held for sale	4,936	1,676	1,580	1,530	547
Total nonperforming assets	13,155	5,098	5,801	2,840	4,203
Allowance for losses on impaired loans	437	370	258	199	655
Impaired loans with no related allowance for loan losses	\$ —	\$ —	\$ 58	\$ 116	\$ —
Nonaccrual and 90 days or more past due loans as a percentage of total loans, net	3.20%	1.47%	2.11%	0.55%	0.45%
Nonaccrual and 90 days or more past due loans as a percentage of total assets	2.44%	1.03%	1.47%	0.38%	0.34%
Nonperforming assets as a percentage of total assets	3.91%	1.53%	2.02%	1.20%	1.97%

(1) Interest on delinquent loans is accrued to income to the extent considered collectible.

Nonperforming assets totaled \$13.2 million, or 3.9% of total assets; at September 30, 2008, which was an increase of \$8.1 million, or 158.8%, from \$5.1 million, or 1.53% of total assets, at September 30, 2007. Nonperforming assets at September 30, 2008 consisted of \$8.2 million in nonaccrual loans, and \$4.9 million in foreclosed real estate. At September 30, 2008, nonaccrual loans consisted of \$3.2 million in real estate construction loans, \$5.0 million in land development loans and commercial real estate loans and consumer loans totaling \$9,000.

Interest income that would have been recorded for the year ended September 30, 2008 had nonaccrual loans been current according to their original terms amounted to \$150,281. There was interest income of \$8,831 recognized on such loans during the period the loans were classified as nonaccrual in 2008.

Foreclosed real estate owned by the Bank at September 30, 2008 totaled \$4.9 million compared to \$1.7 million at September 30, 2007. Foreclosed real estate at September 30, 2008 included twelve 1-4 family properties, seven 1-4 family construction properties, one land development property, one commercial retail property, two commercial lots and one residential lot.

Classified Assets. Federal regulations require us to review and classify our assets on a regular basis. In addition, the Office of Thrift Supervision has the authority to identify problem assets and, if appropriate, require

them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as "loss" is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a "special mention" category, described as assets that do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. When we classify an asset as special mention, substandard or doubtful we establish an allowance for loan losses. If we classify an asset as loss, we allocate an amount equal to 100% of the portion of the asset classified loss.

The following table shows the aggregate amounts of our classified assets at the dates indicated.

	At September 30,		
	2008	2007	2006
	(In thousands)		
Special mention assets	\$ 2,919	\$1,386	\$2,986
Substandard assets (1)	9,276	5,435	3,149
Doubtful assets	—	105	196
Loss assets	—	—	—
Total classified assets	<u>\$12,195</u>	<u>\$6,926</u>	<u>\$6,331</u>

(1) Includes foreclosed real estate of \$4,936,355, \$1,675,871 and \$1,579,848 at September 30, 2008, 2007 and 2006, respectively.

The increase in our substandard assets at September 30, 2008 compared to September 30, 2007 was primarily due to the classification of several spec construction loans, one loan secured by a commercial office building and one land development loan. Substandard assets increased from \$5.4 million at September 30, 2007 to \$9.3 million at September 30, 2008. Our substandard loans at September 30, 2008 consisted primarily of 24 spec 1-4 family properties to primarily three borrowers totaling \$4.5 million, one loan secured by a commercial office building totaling \$3.3 million and one land development property totaling \$1.5 million.

Special mention assets at September 30, 2008 consisted of two loans totaling \$2.9 million secured by land for the development of single-family lots and commercial real estate.

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	At September 30,					
	2008		2007		2006	
	30-59	60-89	30-59	60-89	30-59	60-89
	Days	Days	Days	Days	Days	Days
	Past	Past	Past	Past	Past	Past
	Due	Due	Due	Due	Due	Due
	(In thousands)					
Real estate – mortgage loans	\$—	\$ 153	\$ 155	\$ 31	\$1,533	\$ 746
Land loans	—	59	—	—	—	—
Construction loans	—	2,371	—	2,233	635	323
Commercial loans	27	—	906	95	—	—
Consumer loans	136	—	97	10	83	—
Total	<u>\$163</u>	<u>\$2,583</u>	<u>\$1,158</u>	<u>\$2,369</u>	<u>\$2,251</u>	<u>\$1,069</u>

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

We establish an allowance on certain identified problem loans based on such factors as (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency.

In addition, we establish an allowance for loans that are not delinquent to recognize the losses associated with lending activities. This valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, staff lending experience, recent loss experience in particular segments of the portfolio, classified asset trends, delinquency trends and risk rating trends. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectibility. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan or a shortfall in collateral value would result in our allocating a portion of the allowance to the loan that was impaired.

The Office of Thrift Supervision, as an integral part of its examination process, periodically reviews our allowance for loan losses. The Office of Thrift Supervision may require us to make additional provisions for loan losses based on judgments different from ours.

At September 30, 2008, our allowance for loan losses represented .94% of total gross loans and 32.04% of nonperforming loans. The allowance for loan losses decreased \$378,000 from September 30, 2007 to September 30, 2008 due to a provision of loan losses of \$1.9 million and recoveries totaling \$137,000, partially offset by charge-offs of loans totaling \$2.4 million. There was no material change in the loss factors used to calculate the allowance from September 30, 2007 to September 30, 2008.

At September 30, 2007, our allowance for loan losses represented 1.1% of total gross loans and 87.98% of nonperforming loans. The allowance for loan losses increased \$867,000 from September 30, 2006 to September 30, 2007 due to a provision for loan losses of \$602,000 and recoveries totaling \$532,000, partially offset by charge-offs of loans totaling \$267,000. There was no material change in the loss factors used to calculate the allowance from September 30, 2006 to September 30, 2007.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that regulators, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the Bank's allowance for loan losses for the years indicated. Where specific loan loss allowances have been established, any difference between the loss allowance and the amount of loss realized has been charged or credited to income.

	Years Ended September 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balance at beginning of year	\$3,011	\$2,144	\$1,762	\$2,024	\$1,297
Loans charged-off:					
Single-family, 1-4 units.....	(438)	(82)	(261)	(482)	(132)
Multi-family, 5 or more units	(24)	—	(113)	—	—
Real estate construction loans.....	(1,365)	(140)	(78)	(197)	—
Commercial real estate.....	(258)	—	—	—	—
Commercial business loans.....	(307)	(35)	—	—	—
Consumer loans.....	(4)	(10)	(20)	(16)	(33)
Total charge-offs	<u>(2,396)</u>	<u>(267)</u>	<u>(472)</u>	<u>(695)</u>	<u>(165)</u>
Recoveries:					
Commercial business loans.....	12	—	—	—	—
Single-family, 1-4 units.....	104	511	—	1	6
Multi-family, 5 or more units.....	—	18	—	—	1
Real estate construction	21	—	1	—	—
Consumer loans.....	—	3	1	2	—
Total recoveries	<u>137</u>	<u>532</u>	<u>2</u>	<u>3</u>	<u>7</u>
Net loans charged-off	\$(2,259)	\$ 265	\$ (470)	\$ (692)	\$ (158)
Provision for loan losses.....	<u>1,881</u>	<u>602</u>	<u>852</u>	<u>430</u>	<u>885</u>
Balance at end of year	<u>\$2,633</u>	<u>\$3,011</u>	<u>\$2,144</u>	<u>\$1,762</u>	<u>\$2,024</u>
Ratio of allowance for losses to gross loans receivable.....	<u>0.94%</u>	<u>1.13%</u>	<u>0.93%</u>	<u>0.93%</u>	<u>1.09%</u>
Ratio of net loan charge-offs (recoveries) To average loans outstanding during the year	<u>0.91%</u>	<u>(0.12)%</u>	<u>0.25%</u>	<u>0.40%</u>	<u>(0.09)%</u>

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to provide a better match between the interest rate sensitivity of our assets and liabilities. In particular, the strategies utilized by the Bank are intended to stabilize net interest income for the long term by protecting its interest rate spread against increases in interest rates. Such strategies include the origination for portfolio of one-year, adjustable-rate mortgage loans secured by one- to four-family residential real estate and the origination of other loans with greater interest rate sensitivities than long-term, fixed-rate residential mortgage loans. Asset/liability management in the form of structuring the maturity or repricing of cash instruments provides greater flexibility to adjust exposure to interest rates. During periods of high interest rates, management believes it is

prudent to offer competitive rates on short-term deposits and less competitive rates for long-term liabilities. This posture allows the Bank to benefit quickly from declines in interest rates. Likewise, offering more competitive rates on long-term deposits during the low interest rate periods allows the Bank to extend the repricing and/or maturity of its liabilities thus reducing its exposure to rising interest rates. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Management ("ALCO") Committee, which includes members of management, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Net Portfolio Value Simulation Analysis. We use an interest rate sensitivity analysis prepared by the OTS to review our level of interest rate risk. This analysis measures interest rate risk by computing changes in net portfolio value of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. Net portfolio value represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 50 to 300 basis point increase or 50 to 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. We measure interest rate risk by modeling the changes in net portfolio value over a variety of interest rate scenarios. The following table, which is based on information that we provide to the OTS, presents the change in our net portfolio value at September 30, 2008 that would occur in the event of an immediate change in interest rates based on OTS assumptions, with no effect given to any steps that we might take to counteract that change.

Change in Interest Rates (In Basis Points)	Estimated Net Portfolio Value			Net Portfolio Value as a Percentage of Portfolio Value of Assets	
	Amount	Change	% Change	NPV Ratio	BP Change
	(Dollars in thousands)				
+300	\$45,433	\$(6,775)	(13)%	13.47%	(157)%
+200	47,639	(4,569)	(9)	14.00	(104)
+100	49,920	(2,288)	(4)	14.52	(52)
+50	51,038	(1,170)	(2)	14.78	(26)
0	52,208	—	—	15.04	—
(50)	53,296	1,088	2	15.28	24
(100)	54,351	2,143	4	15.51	47

The OTS uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the Federal Home Loan Bank of Des Moines. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objectives of our asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2008, cash and cash equivalents amounted to \$8.1 million. Securities classified as available for sale, which provide additional sources of liquidity, totaled \$26.1 million at September 30, 2008. In addition, at September 30, 2008, we had the ability to borrow an additional amount of approximately \$2.4 million from the Federal Home Loan Bank of Des Moines, in the form of available overnight lines of credit. On that date, we had no overnight advances outstanding.

At September 30, 2008, we had \$36.7 million in loan commitments outstanding, which included \$19.0 million in undisbursed loans and \$10.8 million in unused lines of credit. Certificates of deposit due within one year of September 30, 2008 totaled \$89.6 million, or 78.2% of certificates of deposit. We believe the large percentage of certificates of deposit that mature within one year reflects customers' hesitancy to invest their funds for long periods in the current interest rate environment. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2009. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The following table presents certain of our contractual obligations as of September 30, 2008.

	Payments Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More Than 5 Years
	(In thousands)				
Federal Home Loan Bank advances	\$69,241	\$48,100	\$20,066	\$1,075	\$ —
Securities sold under agreement to repurchase	813	813	—	—	—
Operating lease obligations	1,300	92	184	201	823
Total	<u>\$ 71,354</u>	<u>\$ 49,005</u>	<u>\$20,250</u>	<u>\$1,276</u>	<u>\$823</u>

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to increase core deposit relationships. We offer promotional rates on certain deposit products to attract deposits.

The following table presents our primary investing and financing activities during the years indicated.

	Years Ended September 30,		
	2008	2007	2006
Investing activities:			
Net change in loans receivable.....	\$(32,978)	\$(35,402)	\$(40,028)
Purchases of securities (1)	(448)	(16,946)	(22,529)
Proceeds from calls, maturities and principal repayments of securities (1)	10,583	10,579	11,486
Proceeds from sales of securities	17,743	—	—
Financing activities:			
Increase (decrease) in deposits.....	(32,542)	53,835	16,854
Increase (decrease) in Federal Home Loan Bank advances	42,810	(7,633)	3,567
Repurchase of common stock	(8,633)	(1,400)	—

(1) Includes mortgaged-backed securities.

Capital Management. We are subject to various regulatory capital requirements administered by the OTS, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2008, the Bank exceeded all of its regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see note 14 of the notes to consolidated financial statements. We currently have no plans to engage in hedging activities in the future.

For the year ended September 30, 2008, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Impact of Recent Accounting Pronouncements

The impact of recent accounting pronouncements is discussed in note 1 of the notes to consolidated financial statements included herewith.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as the Company is a smaller reporting company.

Item 8. Financial Statements and Supplementary Data

This item is not applicable as the Company is a smaller reporting company.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A(T). Controls and Procedures

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) **Internal Control Over Financial Reporting**

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

Management of Liberty Bancorp, Inc. (the "Company") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on the best estimates and judgments of management.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of the Company's financial reporting and the preparation and presentation of financial statements for external reporting purposes in conformity with accounting principles generally accepted in the United States of America, as well as to safeguard assets from unauthorized use or disposition. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audit with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008 based upon criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment and on the forgoing criteria, management has concluded that, as of September 30, 2008, the Company's internal control over financial reporting is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ Brent M. Giles
Brent M. Giles
President and Chief Executive Officer

/s/ Marc J. Weishaar
Marc J. Weishaar
Chief Financial Officer

(c) **Changes to Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2008 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

The information relating to the directors of the Company is incorporated herein by reference to the section captioned "*Proposal I—Election of Directors*" in the Proxy Statement for the Company's 2009 Annual Meeting of Stockholders (the "Proxy Statement").

Executive Officers

The information regarding the Company's executive officers is incorporated herein by reference to Part I, Item 1, "*Business—Executive Officers*," of this Annual Report on Form 10-K.

Corporate Governance

Information regarding the Company's Audit Committee and Audit Committee financial expert is incorporated herein by reference to the section captioned "*Corporate Governance—Committees of the Board of Directors*" in the Proxy Statement.

Compliance with Section 16(a) of the Exchange Act

Information regarding compliance with Section 16(a) of the Exchange Act, the cover page to this Annual Report on Form 10-K and the section captioned "*Other Information Relating to Directors and Executive Officers—Section 16(a) Beneficial Ownership Reporting Compliance*" in the Proxy Statement are incorporated herein by reference.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct that is designed to ensure that the Company's directors, executive officers and employees meet the highest standards of ethical conduct. See Exhibit 14.0 to this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information contained under the sections captioned "*Executive Compensation*" and "*Director Compensation*" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners

The information required by this item is incorporated herein by reference to the section captioned "*Stock Ownership*" in the Proxy Statement.

(b) Security Ownership of Management

The information required by this item is incorporated herein by reference to the section captioned "*Stock Ownership*" in the Proxy Statement.

(c) **Changes In Control**

Management of the Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

(d) **Equity Compensation Plan Information**

The following table sets forth information as of September 30, 2008 about Company common stock that may be issued under the Liberty Bancorp, Inc. 2007 Equity Incentive Plan.

<u>Plan Category</u>	<u>(a) Number of securities to be issued upon the exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
Equity compensation plans approved by security holders	198,550	\$ 11.27	26,290
Equity compensation plans not approved by security holders	—	—	—
Total	<u>198,550</u>	<u>\$ 11.27</u>	<u>26,290</u>

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the section captioned "*Other Information Relating to Directors and Executive Officers—Transactions with Related Persons*" in the Proxy Statement.

Corporate Governance

The information regarding director independence is incorporated herein by reference to the section captioned "*Proposal 1—Election of Directors*" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "*Independent Registered Public Accounting Firm—Fees Paid to Independent Registered Public Accounting Firm*" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The financial statements filed as a part of this report are as follows:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of September 30, 2008 and 2007
- Consolidated Statements of Earnings for the Years Ended September 30, 2008 and 2007
- Consolidated Statements of Comprehensive Earnings for the Years Ended September 30, 2008 and 2007
- Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2008 and 2007
- Consolidated Statements of Cash Flows for the Years Ended September 30, 2008 and 2007
- Notes to Consolidated Financial Statements

(2) All schedules are omitted as the required information either is not applicable or is included in the financial statements or related notes.

(3) **Exhibits** **Description**

3.1	Articles of Incorporation of Liberty Bancorp (1)
3.2	Amended and Restated Bylaws of Liberty Bancorp (2)
4.0	Specimen Stock Certificate of Liberty Bancorp, Inc. (1)
10.1*	Amended and Restated Liberty Savings Bank, F.S.B. Employee Stock Ownership Plan (1)
10.2*	Form of ESOP Loan Commitment Letter and ESOP Loan Documents (1)
10.3*	BankLiberty and Liberty Bancorp, Inc. Employment Agreement with Brent M. Giles (3)
10.4*	BankLiberty Change in Control Agreement with Marc J. Weishaar (3)
10.5*	BankLiberty Change in Control Agreement with Mark E. Hecker (3)
10.6*	Liberty Savings Bank Directors' Retirement Plan (1)
10.7*	Liberty Bancorp, Inc. 2003 Incentive Equity and Deferred Compensation Plan, as Amended and Restated (4)
10.8*	Liberty Bancorp, Inc. 2007 Equity Incentive Plan (5)
14.0	Code of Ethics (3)
21.0	Subsidiaries
23.0	Consent of Michael Trokey & Company, P.C.
31.1	Rule 13a-14 Certification of Chief Executive Officer
31.2	Rule 13a-14 Certification of Chief Financial Officer
32.0	Section 1350 Certifications

* Management contract or compensatory plan, contract or arrangement.

- (1) Incorporated by reference to Company's Registration Statement on Form S-1, as amended (File No. 333-133849), initially filed with the Securities and Exchange Commission on May 5, 2006.
- (2) Incorporated by reference to the Company's Form 8-K filed with the Securities and Exchange Commission on November 28, 2007.
- (3) Incorporated by reference to the Company's 2006 Annual Report on Form 10-K, as amended, initially filed with the Securities and Exchange Commission on December 26, 2006.
- (4) Incorporated by reference to the Company's Form S-8 filed on August 14, 2006.
- (5) Incorporated by reference to the Company's Form S-8 filed on February 8, 2007.

MICHAEL TROKEY & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

10411 CLAYTON ROAD
ST. LOUIS, MISSOURI 63131

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Liberty Bancorp, Inc. and subsidiary ("the Company") as of September 30, 2008 and 2007 and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Bancorp, Inc. and subsidiary as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, included in the accompanying management's annual report on internal control over financial reporting and, accordingly, we do not express an opinion thereon.



St. Louis, Missouri
December 22, 2008

LIBERTY BANCORP, INC.

Consolidated Balance Sheets

September 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 5,274,603	6,502,289
Federal funds sold	2,810,000	2,540,000
Total cash and cash equivalents	8,084,603	9,042,289
Securities available for sale, at market value (amortized cost of \$25,681,057 and \$47,789,202, respectively)	26,053,420	47,982,519
Stock in Federal Home Loan Bank of Des Moines	3,576,300	1,531,200
Mortgage-backed securities:		
Available for sale, at market value (amortized cost of \$14,007,011 and \$19,620,825, respectively)	13,989,151	19,276,996
Loans receivable, net of allowance for loan losses of \$2,633,298 and \$3,010,904, respectively	256,713,257	232,307,925
Loans held for sale	877,246	719,086
Premises and equipment, net	9,790,337	8,744,846
Bank-owned life insurance (BOLI)	8,538,528	8,101,192
Foreclosed real estate, net	4,936,355	1,675,871
Accrued interest receivable	1,640,478	2,055,814
Other assets	705,649	214,823
Deferred tax asset	1,279,570	1,533,426
Total assets	\$ 336,184,894	333,185,987
Liabilities and Stockholders' Equity		
Deposits	\$ 219,763,837	252,305,482
Accrued interest payable on deposits	297,656	601,285
Advances from FHLB	69,240,870	26,430,394
Securities sold under agreement to repurchase	812,500	1,221,184
Advances from borrowers for taxes and insurance	864,268	905,606
Other liabilities	1,196,659	1,439,195
Accrued income taxes	-	88,308
Total liabilities	292,175,790	282,991,454
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; shares issued and outstanding - none	-	-
Common stock, \$0.01 par value; 20,000,000 shares authorized; 4,761,712 and 4,761,187 shares issued	47,617	47,612
Treasury stock, at cost, 825,002 shares at September 30, 2008	(8,632,753)	-
Additional paid-in capital	32,320,258	31,923,289
Common stock acquired by ESOP	(474,634)	(701,309)
Accumulated other comprehensive earnings, net	292,484	(12,619)
Retained earnings - substantially restricted	20,456,132	18,937,560
Total stockholders' equity	44,009,104	50,194,533
Total liabilities and stockholders' equity	\$ 336,184,894	333,185,987

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Earnings

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest income:		
Loans receivable	\$ 17,355,934	17,233,026
Mortgage-backed securities	705,131	933,469
Securities - taxable	1,416,150	1,714,706
Securities - non-taxable	536,110	361,092
Other interest - earning assets	143,261	320,881
Total interest income	<u>20,156,586</u>	<u>20,563,174</u>
Interest expense:		
Deposits	7,321,062	9,084,278
Securities sold under agreement to repurchase	57,834	77,323
Advances from FHLB	2,005,534	1,332,527
Total interest expense	<u>9,384,430</u>	<u>10,494,128</u>
Net interest income	10,772,156	10,069,046
Provision for loan losses	1,881,175	602,089
Net interest income after provision for loan losses	<u>8,890,981</u>	<u>9,466,957</u>
Noninterest income:		
Loan service charges	63,632	89,507
Gain on sale of securities available for sale	135,303	-
Gain on sale of loans	318,634	247,339
Change in cash surrender value of BOLI	437,336	101,192
Deposit account service charges	1,168,913	1,039,412
Total noninterest income	<u>2,123,818</u>	<u>1,477,450</u>
Noninterest expense:		
Compensation and benefits	4,445,981	4,445,083
Occupancy expense	673,323	624,759
Equipment and data processing expense	930,917	798,133
Operations from foreclosed real estate, net	361,994	356,348
FDIC premium expense	134,795	41,048
Professional and regulatory services	434,083	407,760
Advertising	250,486	254,930
Correspondent banking charges	233,664	260,576
Supplies	136,320	137,693
Other	785,708	719,683
Total noninterest expense	<u>8,387,271</u>	<u>8,046,013</u>
Earnings before income taxes	<u>2,627,528</u>	<u>2,898,394</u>
Income taxes:		
Current	639,000	1,338,000
Deferred	67,000	(384,000)
Total income taxes	<u>706,000</u>	<u>954,000</u>
Net earnings	<u>\$ 1,921,528</u>	<u>1,944,394</u>
Basic earnings per share	<u>\$ 0.48</u>	<u>0.42</u>
Diluted earnings per share	<u>\$ 0.47</u>	<u>0.42</u>

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Comprehensive Earnings

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net earnings	\$ 1,921,528	1,944,394
Other comprehensive earnings:		
Unrealized gain on securities and MBSs available for sale, net:		
Reclassification adjustment for gains included in earnings, net of tax of \$47,356 and \$0, respectively	(87,947)	
Unrealized gains arising during the year, net of tax of \$218,673 and \$280,911, respectively	406,107	478,307
Adjustment to initially apply SFAS Statement No. 158, net of tax of \$44,264		82,204
Decrease in unrealized gain under SFAS Statement No. 158, net of tax of \$7,031	(13,057)	-
Comprehensive earnings	\$ <u>2,226,631</u>	<u>2,504,905</u>

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Stockholders' Equity

Years Ended September 30, 2008 and 2007

	Common Stock	Treasury Stock	Additional Paid-In Capital	Common Stock Acquired by ESOP	Common Stock Acquired by Incentive Plan	Retained Earnings	Accumulated Other Comprehensive Earnings, Net	Total Stockholders' Equity
Balance at September 30, 2006	\$ 47,601	-	33,001,965	(933,192)	(18,676)	17,457,008	(573,130)	48,981,576
Shares issued under stock-based incentive plan	11	-	8,684	-	-	-	-	8,695
Amortization of ESOP award	-	-	100,852	231,883	-	-	-	332,735
Reclass to apply SFAS No. 123(R)	-	-	(18,676)	-	18,676	-	-	162,519
Amortization of stock awards	-	-	162,519	-	-	-	-	67,553
Amortization of stock option grants	-	-	67,553	-	-	-	-	478,307
Unrealized gain on securities available for sale, net	-	-	-	-	-	-	478,307	82,204
Unrealized gain to initially apply SFAS No. 158, net	-	-	-	-	-	-	82,204	(1,399,608)
Repurchase of common stock for incentive stock award plan	-	-	(1,399,608)	-	-	-	-	(463,842)
Cash dividends of \$.10 per share	-	-	-	-	-	(463,842)	-	1,944,394
Net earnings	-	-	-	-	-	1,944,394	-	50,194,533
Balance at September 30, 2007	\$ 47,612	-	31,923,289	(701,309)	-	18,937,560	(12,619)	50,194,533
Shares issued under stock-based incentive plan	5	-	4,342	-	-	-	-	4,347
Treasury stock	-	(8,632,753)	-	-	-	-	-	(8,632,753)
Amortization of ESOP award	-	-	69,703	226,675	-	-	-	296,378
Amortization of stock awards	-	-	246,588	-	-	-	-	246,588
Amortization of stock option grants	-	-	75,347	-	-	-	-	75,347
Unrealized gain on securities available for sale, net	-	-	-	-	-	-	318,160	318,160
Decrease in unrealized gain under SFAS No. 158, net	-	-	-	-	-	-	(13,057)	(13,057)
Other	-	-	989	-	-	-	-	989
Cash dividends of \$.10 per share	-	-	-	-	-	(402,956)	-	(402,956)
Net earnings	-	-	-	-	-	1,921,528	-	1,921,528
Balance at September 30, 2008	\$ 47,617	(8,632,753)	32,320,258	(474,634)	-	20,456,132	292,484	44,009,104

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Consolidated Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 1,921,528	1,944,394
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation expense	570,422	463,259
ESOP expense	296,378	332,735
Incentive Plan expense	321,935	230,072
Amortization of discounts on investments, net	(21,141)	(32,714)
Amortization of unearned discount on loans and deferred loan fees, net	(279,263)	(294,752)
Provision for loan losses	1,881,175	602,089
Loans held for sale - originated	(24,739,010)	(20,353,682)
Loans held for sale - proceeds from sale	24,899,484	20,341,136
Gain on sale of loans	(318,634)	(247,339)
Increase in cash surrender value of bank-owned life insurance	(437,336)	(101,192)
Gain on sale of securities available for sale	(135,303)	—
Loss on foreclosed real estate, net	310,572	288,045
Decrease (increase) in:		
Accrued interest receivable	415,336	(569,459)
Other assets	(490,826)	(32,581)
Deferred tax assets	67,000	(384,000)
Increase (decrease) in:		
Accrued interest on deposits and other liabilities	(559,222)	510,112
Accrued income taxes	(88,308)	(72,419)
Net cash provided by (used for) operating activities	<u>3,614,787</u>	<u>2,623,704</u>
Cash flows from investing activities:		
Net change in loans receivable	(32,977,909)	(35,401,657)
Mortgage-backed securities:		
Available for sale - principal collections	5,606,708	5,228,574
Securities available for sale:		
Purchase	(448,061)	(16,946,207)
Proceeds from maturity or call	4,935,000	5,350,000
Proceeds from sale	17,743,207	—
Principal collections	41,550	—
Purchase of stock in FHLB of Des Moines	(2,513,071)	(1,300,100)
Redemption of stock in FHLB of Des Moines	467,971	1,721,800
Proceeds from the sale of foreclosed real estate, net	3,399,609	2,624,705
Purchase of premises and equipment	(1,615,913)	(2,507,916)
Purchase of bank-owned life insurance policy	—	(8,000,000)
Net cash provided by (used for) investing activities	<u>\$ (5,360,909)</u>	<u>(49,230,801)</u>

(Continued)

LIBERTY BANCORP, INC.

Consolidated Statements of Cash Flows

Years Ended September 30, 2008 and 2007

(Continued)

	<u>2008</u>	<u>2007</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	\$ (32,541,645)	53,834,503
Increase (decrease) in advances from borrowers for taxes and insurance	(41,338)	62,094
Proceeds from advances from the FHLB	1,156,350,000	276,100,000
Repayment of advances from the FHLB	(1,113,539,524)	(283,733,344)
Securities sold under agreement to repurchase:		
Proceeds	10,662,300	51,974,878
Repayments	(11,070,984)	(54,137,691)
Proceeds from exercise of stock options	4,347	8,695
Repurchase of common stock	(8,632,753)	(1,399,608)
Other	989	
Cash dividends	(402,956)	(463,842)
Net cash provided by (used for) financing activities	<u>788,436</u>	<u>42,245,685</u>
Net increase (decrease) in cash and cash equivalents	(957,686)	(4,361,412)
Cash and cash equivalents at beginning of year	9,042,289	13,403,701
Cash and cash equivalents at end of year	<u>\$ 8,084,603</u>	<u>9,042,289</u>

Supplemental disclosures of cash flow information:

Cash paid (received) during the year for:

Interest on deposits	\$ 7,624,587	8,799,195
Interest on advances from FHLB of Des Moines	2,016,978	1,329,586
Interest on securities sold under agreement to repurchase	57,939	77,487
Income taxes	920,655	1,411,889
Real estate acquired in settlement of loans	6,970,665	5,383,483
Loans originated to finance the sale of foreclosed real estate		2,374,710

See accompanying notes to consolidated financial statements.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

September 30, 2008 and 2007 and
Years Ended September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

Liberty Bancorp, Inc. (the "Company" or "Liberty Bancorp") was organized as a Missouri corporation at the direction of BankLiberty, formerly "Liberty Savings Bank, F.S.B." (the "Bank" or "BankLiberty"), in February 2006 to become the holding company for the Bank upon the completion of the "second-step" mutual-to-stock conversion (the "Conversion") of Liberty Savings Mutual Holding Company (the "MHC"). The Conversion was completed on July 21, 2006. As part of the Conversion, the MHC merged into the Bank, thereby ceasing to exist, and Liberty Savings Bank, F.S.B. changed its name to "BankLiberty." A total of 2,807,383 shares of common stock were sold in the stock offering at the price of \$10.00 per share. In addition, a total of 1,952,754 shares of common stock were issued to the minority shareholders of the former Liberty Savings Bank, F.S.B. representing an exchange ratio of 3.5004 shares of Company common stock for each share of Liberty Savings Bank, F.S.B. common stock. Fractional shares in the aggregate, or 36 shares, were redeemed for cash. Total shares outstanding after the stock offering and the exchange totaled 4,760,137 shares. Net proceeds of \$25.6 million were raised in the stock offering, excluding \$1.2 million which was loaned by the Company to a trust for the Employee Stock Ownership Plan (the "ESOP"), enabling it to finance 153,263 shares of common stock in the offering and exchange. Direct offering costs totaled approximately \$1.3 million. In addition, as part of the Conversion and dissolution of Liberty Savings Mutual Holding Company, the Bank received approximately \$694,000 of cash previously held by the MHC.

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

- a. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, BankLiberty. The Company's principal business is the business of the Bank. All significant intercompany accounts and transactions have been eliminated.
- b. For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing funds in other banks with original maturities of three months or less. The Company maintains cash in bank accounts which may exceed federally insured limits. The Company does not believe it is exposed to any significant credit risk. Interest-bearing funds in other banks were \$1,129,990 and \$7,175,110 at September 30, 2008 and 2007, respectively. A restricted cash account of \$560,510 related to clearing of checks was held in a correspondent bank at September 30, 2008 and 2007.
- c. Securities and mortgage-backed securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at cost, adjusted for amortization of premiums and accretion of discounts over the life of the security using the interest method. Securities and mortgage-backed securities not classified as held to maturity securities are classified as available for sale securities and are reported at fair value, with unrealized gains and losses excluded from net earnings

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

and reported as a separate component of stockholders' equity. Unrealized gains on securities and mortgage-backed securities, net of tax of \$131,166, amounted to \$223,337 at September 30, 2008. Unrealized losses on securities and mortgage-backed securities, net of tax of \$55,689, amounted to \$94,823 at September 30, 2007. The Company does not purchase securities and mortgage-backed securities for trading purposes.

The cost of securities sold is determined by specific identification. Declines in fair value of securities and mortgage-backed securities available for sale that are deemed to be other-than-temporary are charged to earnings as a realized loss. In estimating other-than-temporary impairment losses, management of the Company considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time to allow for any anticipated recovery in fair value. Stock in the Federal Home Loan Bank of Des Moines is recorded at cost, which represents redemption value. Dividends received on such stock are reported as income. The Bank is a member of the Federal Home Loan Bank system. The required investment in the common stock is based upon a certain percentage of the Bank's assets and FHLB advances.

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

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

Loans originated and held for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gain on sale of loans is recognized once title has passed to the purchaser, substantially all risks and rewards of ownership have irrevocably passed to the purchaser and recourse obligations, if any, are minor and can be reasonably estimated. Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized to interest income over the contractual life of the loan using the interest method.

- e. Valuation allowances are established for impaired loans for the difference between the loan amount and the fair value of collateral less estimated selling costs. The Bank considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. The types of loans for which impairment is measured include nonaccrual income property loans (excluding those loans included in the homogenous portfolio which are collectively reviewed for impairment), large, nonaccrual single-family loans and troubled debt restructurings. Such loans are generally placed on nonaccrual status at the point deemed uncollectible. Impairment losses are recognized through an increase in the allowance for loan losses. A loan is considered delinquent when a payment has not been made by the contractual due date. See note 5 for information regarding impaired loans at September 30, 2008 and 2007.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

- f. Allowances for losses are available to absorb losses incurred on loans and foreclosed real estate held for sale and represent additions charged to expense, less net charge-offs. Loans are charged-off in the period deemed uncollectible. Recoveries of loans previously charged-off are recorded when received. The allowances are evaluated on a regular basis by management and are based on management's periodic review of the collectibility of loans, in light of historical experience, fair value of the underlying collateral, changes in the types and mix of loans originated and prevailing economic conditions.
- g. Premises and equipment are carried at cost, less accumulated depreciation. Depreciation of premises and equipment is computed using the straight-line method based on the estimated useful lives of the related assets. Estimated lives are five to forty years for buildings and improvements, and three to ten years for furniture and equipment.
- h. Foreclosed real estate is carried at the lower of cost or fair value less estimated selling costs based upon an appraisal or internal valuation of the property. Costs related to improvement of real estate are capitalized. Foreclosed assets also include properties for which the Bank has taken physical possession, even though formal foreclosure proceedings have not taken place.
- i. Interest on securities, mortgage-backed securities and loans receivable is accrued as earned. Interest on loans receivable contractually delinquent is excluded from income when deemed uncollectible. When a loan is classified as nonaccrual, accrued interest is reversed against current income. Subsequent collection of interest on nonaccrual loans is recorded as income when received or applied to reduce the loan balance. Accrual of interest is resumed on previously classified nonaccrual loans, when there is no longer any reasonable doubt as to the timely collection of interest. Accrued interest receivable as of September 30, 2008 and 2007 is summarized as follows:

	2008	2007
Securities	\$ 366,688	578,482
Mortgage-backed securities	59,462	82,152
Loans receivable	1,214,328	1,395,180
	\$ 1,640,478	2,055,814

- j. Bank owned life insurance is carried at the cash surrender value. Changes in the cash surrender value, including interest income, increases and decreases in value and policy expenses, are recognized as a component of noninterest income.
- k. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities which will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that will more likely than not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

- l. On October 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) (SFAS No. 123 (R)), "Share-Based Payment," using the modified prospective method.

Under this method, compensation expense is recognized based on the fair value of unvested stock awards at the implementation date of SFAS No. 123 (R) and new awards granted thereafter, which includes restricted stock and stock options, at the grant date and is recognized on a straight-line basis over the requisite service period. The fair value of stock options is estimated at the date of grant using the Black-Scholes pricing model and related assumptions. The risk-free rate is based on the U.S. Treasury zero-coupon issue with a remaining term equal to the expected term used as an assumption in the model. The expected term is based upon the average of the original contractual term and the vesting term. Since the Company is a relatively new, fully public entity, the expected volatility is based upon the expected volatility of similar fully public entities.

- m. For ESOP shares committed to be released, the Bank recognizes compensation expense equal to the average fair value of the shares committed to be released during the period in accordance with the provisions of Statement of Position 93-6.
- n. Earnings per share are based upon the weighted-average shares outstanding. ESOP shares, which have been committed to be released, are considered outstanding and stock options to the extent dilutive.

Following is a summary of basic and diluted earnings per common share for the years ended September 30, 2008 and 2007:

	2008	2007
Net earnings	\$ 1,921,528	1,944,394
Weighted-average shares - Basic EPS	4,007,591	4,618,323
Stock options - treasury stock method	39,468	42,980
Weighted-average shares - Diluted EPS	4,047,059	4,661,303
Basic earnings per common share	\$ 0.48	0.42
Diluted earnings per common share	\$ 0.47	0.42
Anti-dilutive shares	94,185	51,551

- o. The following paragraphs summarize the impact of new accounting pronouncements:

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB No. 109." This Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48, effective October 1, 2007. No adjustments were recognized for uncertain tax positions. The Company is subject to U.S. Federal income taxes, as well as Missouri

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

income taxes and special financial institution taxes. Tax years ending September 30, 2006 through September 30, 2008 remain open to examination by these jurisdictions. The Company recognizes interest and penalties related to tax positions in income tax expense. At September 30, 2008, there was no accrual for uncertain tax positions or related interest.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements," to define fair value, establish a framework for measuring fair value and expand disclosures about fair values. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 was adopted on October 1, 2008 and did not have a material impact on the Company's financial position or results of operation.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain items at fair value. Entities shall report unrealized gains and losses on those items which the fair value option has been elected in earnings. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. SFAS No. 159 was adopted on October 1, 2008 and did not have a material impact on the Company's financial position or results of operation.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that an entity provides in its consolidated financial statements by establishing accounting and reporting standards for a noncontrolling interest or minority interest, the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (R), "Business Combinations." SFAS No. 141 (R) improves the relevance, representational faithfulness, and comparability of the financial information that an entity provides in its financial reports regarding business combinations and its effects.

SFAS No. 160 and SFAS No. 141 (R) are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company is currently reviewing the applications of SFAS No. 160 and SFAS No. 141 (R). At September 30, 2008, the Company did not have a noncontrolling interest.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and improves the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company is currently reviewing the application of SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles

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Notes to Consolidated Financial Statements

and the framework for selecting the principles to be used in preparation of financial statements that are presented in conformity with U.S. generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."

In October 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." FSP SFAS No. 157 is effective upon issuance. FSP SFAS No. 157 provides clarification of SFAS No. 157, "Fair Value Measurements," in determining the fair value of a financial asset when the market for that financial asset is not active. Application issues include consideration of the entity's own assumptions when measuring fair value when relevant observable inputs do not exist; available observable inputs in a market that is not active should be considered when measuring fair value; and market quotes when assessing the relevance of observable and unobservable data available to measure fair value. FSP SFAS No. 157 was adopted on October 1, 2008 and did not have a material impact on the Company's financial position or results of operation.

(2) Risks and Uncertainties

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

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions, which affect the reported amounts of assets and liabilities as of the balance sheet dates and income and expenses for the years covered. Actual results could differ significantly from these estimates and assumptions.

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

The Bank uses a net market value methodology provided by the OTS to measure its interest rate risk exposure. This exposure is a measure of the potential decline in the net portfolio value of the Bank based upon the effect of an assumed increase or decrease in interest

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

rates in primarily 100 basis point increments. Net portfolio value is the expected net cash flows from the institution's assets, liabilities and off-balance sheet contracts. Credit risk is the risk of default on the Bank's loan portfolio that results from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank. The Bank is subject to periodic examination by regulatory agencies, which may require the Bank to record increases in the allowance based on their evaluation of available information. There can be no assurance that the Bank's regulators will not require further increases to the allowances.

(3) Securities

Securities are summarized as follows:

2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale - debt securities:				
Federal agency obligations	\$ 13,422,143	480,901	-	13,903,044
State and municipal obligations	11,714,464	46,438	(82,041)	11,678,861
	25,136,607	527,339	(82,041)	25,581,905
Available for sale - equity securities				
	544,450	-	(72,935)	471,515
	\$ 25,681,057	527,339	(154,976)	26,053,420
Weighted-average rate	4.69 %			
2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale - debt securities:				
Federal agency obligations	\$ 34,555,418	320,918	(28,288)	34,848,048
State and municipal obligations	12,839,161	2,016	(100,590)	12,740,587
	47,394,579	322,934	(128,878)	47,588,635
Available for sale - equity securities				
	394,623	-	(739)	393,884
	\$ 47,789,202	322,934	(129,617)	47,982,519
Weighted-average rate	4.72 %			

Weighted-average rates are based on the coupon rate at the balance sheet date.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

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

	Less than 12 Months		12 Months or Longer		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
September 30, 2008						
Available for sale- debt securities:						
State and municipal obligations	\$ -	-	4,773,162	(82,041)	4,773,162	(82,041)
Available for sale- equity securities	130,279	(19,548)	341,236	(53,387)	471,515	(72,935)
	\$ 130,279	(19,548)	5,114,398	(135,428)	5,244,677	(154,976)
September 30, 2007						
Available for sale- debt securities:						
Federal agency obligations	\$ -	-	5,993,047	(28,288)	5,993,047	(28,288)
State and municipal obligations	2,777,801	(21,951)	5,326,202	(78,639)	8,104,003	(100,590)
Available for sale- equity securities	393,884	(739)	-	-	393,884	(739)
	\$ 3,171,685	(22,690)	11,319,249	(106,927)	14,490,934	(129,617)

The Company believes that the decline in value is related to changes in market interest rates and not credit quality of the issuers.

Maturities of debt securities at September 30, 2008 are summarized as follows:

	Available for Sale	
	Amortized Cost	Market Value
Due within one year	\$ 4,597,578	4,637,025
Due after one through five years	12,332,841	12,788,517
Due after five through ten years	3,580,601	3,585,363
Due after ten years	4,625,587	4,571,000
	\$ 25,136,607	25,581,905

At September 30, 2008, securities with a carrying value of approximately \$6,198,644 are callable at the discretion of the issuer prior to the maturity date. Securities in the amount of \$17,059,647 were pledged to secure certain deposits at September 30, 2008.

Gross proceeds, gross realized gains and gross realized losses from sales of available for sale securities were \$17,743,207, \$135,303 and \$0, respectively, for the year ended September 30, 2008. There were no such sales during 2007.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

(4) Mortgage-Backed Securities

Mortgage-backed securities ("MBSs") are summarized as follows:

		2008			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale:					
FHLMC	\$	8,910,347	25,750	(17,813)	8,918,284
FNMA		4,737,407	8,921	(28,539)	4,717,789
GNMA		32,785	439	-	33,224
GNMA - CMO		202,623	-	(1,032)	201,591
FNMA - CMO		123,849	-	(5,586)	118,263
	\$	14,007,011	35,110	(52,970)	13,989,151
Weighted-average rate		4.33 %			
		2007			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Available for sale:					
FHLMC	\$	12,779,279	6,525	(198,673)	12,587,131
FNMA		6,213,053	192	(135,059)	6,078,186
GNMA		37,454	287	-	37,741
GNMA - CMO		400,055	-	(7,989)	392,066
FHLMC - CMO		43,780	-	(98)	43,682
FNMA - CMO		147,204	-	(9,014)	138,190
	\$	19,620,825	7,004	(350,833)	19,276,996
Weighted-average rate		4.31 %			

Weighted-average rates are based on the coupon rate at the balance sheet date. Actual yield is expected to be lower and is affected by prepayments and related premium amortization. At September 30, 2008 and 2007, MBSs included adjustable-rate mortgage loans of \$4,815,649 and \$6,384,358, respectively. MBSs pledged to secure certain deposits were \$2,503,447 at September 30, 2008.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

Mortgage-backed securities having a continuous unrealized loss position for less than twelve months or twelve months or longer are summarized as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
September 30, 2008						
Available for sale:						
FHLMC	\$ -	-	5,103,815	(17,813)	5,103,815	(17,813)
FNMA	-	-	3,702,044	(28,539)	3,702,044	(28,539)
GNMA - CMO	-	-	201,591	(1,032)	201,591	(1,032)
FNMA - CMO	-	-	118,263	(5,586)	118,263	(5,586)
	\$ -	-	9,125,713	(52,970)	9,125,713	(52,970)
September 30, 2007						
Available for sale:						
FHLMC	\$ 828,941	(3,036)	10,146,180	(195,637)	10,975,121	(198,673)
FNMA	-	-	5,891,129	(135,059)	5,891,129	(135,059)
GNMA - CMO	-	-	392,066	(7,989)	392,066	(7,989)
FHLMC - CMO	-	-	43,682	(98)	43,682	(98)
FNMA - CMO	-	-	138,190	(9,014)	138,190	(9,014)
	\$ 828,941	(3,036)	16,611,247	(347,797)	17,440,188	(350,833)

The Company believes that the decline in value is related to changes in market interest rates and not credit quality of the issuers.

(5) Loans Receivable, Net

Loans receivable, net are summarized as follows:

	2008	2007
Real estate loans:		
Single-family, 1-4 units	\$ 40,727,011	41,749,549
Multi-family, 5 or more units	17,368,034	12,197,677
Construction	90,482,099	125,797,037
Commercial	102,363,966	57,240,734
Commercial business loans	17,805,117	17,950,717
Consumer loans	9,919,979	12,038,005
	278,666,206	266,973,719
Allowance for losses	(2,633,298)	(3,010,904)
Loans in process	(19,027,587)	(31,315,742)
Unearned discounts	(13,068)	
Deferred loan fees, net	(278,996)	(339,148)
	\$ 256,713,257	232,307,925
Weighted-average rate	6.46 %	7.83 %

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

Adjustable-rate loans included in the loan portfolio amounted to \$96,031,839 and \$111,674,667 at September 30, 2008 and 2007, respectively. Loans serviced for the benefits of others amounted to \$10,742,912 and \$5,550,066 at September 30, 2008 and 2007, respectively.

Real estate construction loans are secured by the following:

	<u>2008</u>	<u>2007</u>
Single-family, spec	\$ 13,247,325	29,331,087
Single-family, custom built	6,346,275	7,097,700
Multi-family, 5 or more units	821,090	1,494,997
Development	36,669,828	36,407,723
Commercial	33,397,581	51,020,155
Other	-	445,375
	<u>\$ 90,482,099</u>	<u>125,797,037</u>

Following is a summary of activity in allowance for loan losses:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 3,010,904	2,144,121
Loan charge-offs	(2,395,909)	(267,581)
Loan recoveries	137,128	532,275
Provision charged to expense	1,881,175	602,089
Balance, end of year	<u>\$ 2,633,298</u>	<u>3,010,904</u>

A summary of impaired loans follows:

	<u>2008</u>	<u>2007</u>
Nonaccrual loans	\$ 8,218,713	3,422,257
Accruing loans past due 90 days or more	-	-
Total impaired loans	<u>\$ 8,218,713</u>	<u>3,422,257</u>
Allowance for losses on impaired loans	<u>\$ 437,523</u>	<u>370,116</u>
Impaired loans with no allowance for loan losses	<u>\$ -</u>	<u>-</u>
Average balance of impaired loans	<u>\$ 4,598,203</u>	<u>1,331,696</u>
Interest income that would have been recognized	<u>\$ 150,281</u>	<u>70,389</u>
Interest income recognized	<u>\$ 8,831</u>	<u>-</u>

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Notes to Consolidated Financial Statements

The Bank originates single-family loans with high loan to value ratios exceeding 90 percent. At September 30, 2008 and 2007 these loans amounted to \$6,263,049 and \$5,920,947, respectively.

Following is a summary of loans to directors, executive officers and associates of such persons in excess of \$60,000 in the aggregate for the year ended September 30, 2008:

Balance, beginning of year	\$	615,171
Additions		
Repayments		(39,762)
Balance, end of year	\$	575,409

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

(6) Premises and Equipment, Net

Premises and equipment, net are summarized as follows:

		2008	2007
Land	\$	2,430,041	2,405,041
Land for future branch location		600,000	
Office buildings		6,665,992	6,731,896
Furniture and equipment		3,563,844	3,075,123
Building-in-progress		580,070	11,974
		13,839,947	12,224,034
Less accumulated depreciation		4,049,610	3,479,188
	\$	9,790,337	8,744,846

Depreciation expense for 2008 and 2007 was \$570,422 and \$463,259, respectively.

The Bank leases the land for one branch office located in Kansas City. The lease expires in November 2021. The Bank has four successive options to extend the lease term for five years each and a fifth option for a three year period. Rent expense for both 2008 and 2007 amounted to \$91,622. Future minimum lease payments are summarized as follows:

October 1, 2008 to September 30, 2009	\$	91,622
October 1, 2009 to September 30, 2010		91,622
October 1, 2010 to September 30, 2011		92,386
October 1, 2011 to September 30, 2012		100,784
October 1, 2012 to September 30, 2013		100,784
After September 30, 2013		823,071
	\$	1,300,269

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

(7) Foreclosed Real Estate, Net

Foreclosed real estate, net is summarized as follows:

	<u>2008</u>	<u>2007</u>
Foreclosed real estate	\$ 4,936,355	1,675,871
Allowance for losses		
	<u>\$ 4,936,355</u>	<u>1,675,871</u>

Foreclosed real estate at September 30, 2008 included 12 one-to-four family properties, seven one-to-four family construction properties, one land development property, one commercial retail property, two commercial lots and one residential lot.

Following is a summary of activity in allowance for loan losses:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ -	
Gain on sale	53,183	58,676
Charge-offs	(363,755)	(346,721)
Provision charged to expense	310,572	288,045
Balance, end of year	<u>\$ -</u>	<u>-</u>

(8) Deposits

Deposits are summarized as follows:

Description and interest rate	<u>2008</u>	<u>2007</u>
Non-interest bearing NOW accounts	\$ 14,869,181	13,616,861
NOW accounts, .85% and 1.71%, respectively	21,694,726	21,368,449
Statement accounts, .30% and .31%, respectively	7,257,784	7,200,644
Money market accounts, 2.72% and 4.59%, respectively	61,370,844	68,481,779
Total transaction accounts	<u>105,192,535</u>	<u>110,667,733</u>
Certificates:		
2.00 - 2.99%	60,858,183	300,179
3.00 - 3.99%	34,745,328	9,249,218
4.00 - 4.99%	15,732,752	60,151,774
5.00 - 5.99%	3,235,039	71,936,578
Total certificates, 3.08% and 4.81%, respectively	<u>114,571,302</u>	<u>141,637,749</u>
Total deposits, 2.47% and 4.10%, respectively	<u>\$ 219,763,837</u>	<u>252,305,482</u>

At September 30, 2008 and 2007, deposits included brokered certificates of \$15,000,000 and \$14,000,000, respectively.

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Certificate maturities are summarized as follows:

	<u>2008</u>	<u>2007</u>
First year	\$ 89,574,562	126,634,196
Second year	14,843,151	7,495,054
Third year	6,192,967	3,913,756
Fourth year	1,735,327	1,903,419
Fifth year	2,225,295	1,691,324
	<u>\$ 114,571,302</u>	<u>141,637,749</u>

Transaction accounts and certificates in denominations of \$100,000 or more amounted to \$40,069,184 and \$44,204,202 at September 30, 2008, respectively, and \$48,643,943 and \$47,732,829 at September 30, 2007, respectively.

Interest on deposits is summarized as follows:

	<u>2008</u>	<u>2007</u>
NOW accounts	\$ 305,856	458,246
Passbook accounts	21,198	22,544
Money market accounts	2,223,297	1,700,437
Certificates	4,770,711	6,903,051
	<u>\$ 7,321,062</u>	<u>9,084,278</u>

Deposits from directors, executive officers and other affiliates were not material to total deposits at September 30, 2008 and 2007.

(9) Advances from Federal Home Loan Bank of Des Moines

Fixed-rate advances from Federal Home Loan Bank ("FHLB") of Des Moines are summarized as follows:

<u>Final</u> <u>Maturity Date</u>	<u>Average Interest Rate</u> <u>at September 30, 2008</u>	<u>2008</u>	<u>2007</u>
Within one year	2.12 %	\$ 48,000,000	21,955,516
After one through three years	3.35	19,866,000	-
After three through five years	7.64	1,374,870	4,474,878
		<u>\$ 69,240,870</u>	<u>26,430,394</u>
Weighted-average rate		<u>2.58 %</u>	<u>5.08 %</u>

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Notes to Consolidated Financial Statements

Principal maturities at September 30, 2008 are summarized as follows:

October 1, 2008 to September 30, 2009	\$	48,100,008
October 1, 2009 to September 30, 2010		11,966,008
October 1, 2010 to September 30, 2011		8,100,008
October 1, 2011 to September 30, 2012		<u>1,074,846</u>
	\$	<u><u>69,240,870</u></u>

At September 30, 2008, advances from FHLB of Des Moines are secured by securities, FHLB stock and one-to-four family, home equity, multi-family, commercial real estate and non-real estate loans amounting to \$71,683,166. The Bank had remaining credit available under the FHLB advance program of \$2.4 million at September 30, 2008.

(10) Securities Sold Under Agreement to Repurchase

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

Maturity Date	Rate at September 30, 2008	2008	2007
February 26, 2009	5.21 %	\$ 569,102	540,136
Open line	2.67 %	<u>243,398</u>	<u>681,048</u>
Total, 4.45% and 4.21%		<u>\$ 812,500</u>	<u>1,221,184</u>
Market value of securities		<u>\$ 3,991,155</u>	<u>6,996,954</u>
Average balance of borrowings		<u>\$ 1,426,793</u>	<u>2,097,002</u>
Maximum balance at any month end		<u>\$ 2,197,390</u>	<u>5,690,307</u>

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Notes to Consolidated Financial Statements

(11) Income Taxes

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

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

	2008	2007
Deferred tax liabilities:		
FHLB stock dividends	\$ (140,625)	(140,625)
Unrealized gain on securities available for sale	(131,166)	-
	(271,791)	(140,625)
Deferred tax assets:		
Accrued income and expense and deferred loan fees	270,493	304,977
Allowance for losses on loans	987,486	1,129,089
Unrealized loss on securities available for sale	-	55,690
Other	293,382	184,295
Total deferred tax assets	1,551,361	1,674,051
Net deferred tax asset	\$ 1,279,570	1,533,426

The provisions of SFAS No. 109 require the Bank to establish a deferred tax liability for the effect of the tax bad debt reserves over the amounts at September 30, 1988. The Bank's tax bad debt reserves were \$3,588,000 at September 30, 1988. The estimated deferred tax liability on such amount is approximately \$1,220,000, which has not been recorded in the accompanying financial statements. If these tax bad debt reserves are used for other than loan losses, the amount used will be subject to Federal income taxes at the then prevailing corporate rate.

Income taxes are summarized as follows:

	2008	2007
Current:		
Federal	\$ 575,000	1,160,000
State	64,000	178,000
	639,000	1,338,000
Deferred:		
Federal	59,000	(335,000)
State	8,000	(49,000)
	67,000	(384,000)
	\$ 706,000	954,000

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

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

	Percentage of Earnings			
	Before Income Taxes			
	2008		2007	
Federal statutory income tax rate	34.0	%	34.0	%
Increases (decreases) in tax rate:				
Tax exempt income	(6.0)		(3.5)	
Change in cash surrender value of BOLI	(5.7)		(1.2)	
Nondeductible stock option expense	0.8		0.7	
State taxes, net of Federal tax benefit	1.8		2.9	
Average fair value versus cost of ESOP shares	0.9		1.2	
Other, net	1.3		(1.2)	
Tax rate	27.1	%	32.9	%

(12) Employee Benefits

Defined Contribution Pension Plan (401k Plan)

The Bank maintains a defined contribution pension plan, which covers substantially all employees. Participants can contribute from 2% to 15% of their salary of which the Bank will match 50% of the employee contribution, up to a maximum of 5% of the employee's salary. Participants are fully vested after five years of service. Pension plan expense was \$62,717 and \$53,752 for 2008 and 2007, respectively.

Directors' Postretirement Medical Benefits

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

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

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table sets forth the Plan's funded status and amounts recognized in other liabilities in the financial statements:

	2008	2007
Accumulated postretirement benefit obligations	\$ (240,160)	(257,426)
Unrecognized transition obligation	-	-
Unrecognized prior service cost	-	-
Unrecognized actuarial gain	-	-
Under (over) accrual	10,732	11,230
Accrued postretirement benefit cost	\$ (229,428)	(246,196)

A reconciliation of the accumulated postretirement benefit obligation is summarized as follows:

	2008	2007
Balance, beginning of year	\$ (257,426)	(318,823)
Service cost	(6,685)	(6,685)
Interest cost	(14,712)	(18,306)
Benefits paid	38,163	37,538
Actuarial gain	500	48,850
Balance, end of year	\$ (240,160)	(257,426)

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits for the medical plan is 12% for 2008 and thereafter. The effect of increasing the assumed health care trend rates by one percentage point on the accumulated postretirement benefit obligation and the components of the net periodic cost for postretirement medical benefits at or for the years ended September 30, 2008 and 2007 was considered immaterial. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6% at and for the years ended September 30, 2008 and 2007.

The components of the net periodic cost for postretirement medical benefits are summarized as follows:

	2008	2007
Service cost	\$ 6,685	6,685
Interest cost	14,712	18,306
Amortization of transition obligation	12,538	12,538
Amortization of prior service cost	(9,665)	(9,665)
Amortization of actuarial gain	(21,368)	(12,203)
Net Periodic Cost	\$ 2,902	15,661

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Notes to Consolidated Financial Statements

Postretirement medical benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are summarized as follows:

October 1, 2008 to September 30, 2009	\$	39,069
October 1, 2009 to September 30, 2010		42,317
October 1, 2010 to September 30, 2011		45,955
October 1, 2011 to September 30, 2012		50,030
October 1, 2012 to September 30, 2013		12,000
October 1, 2013 to September 30, 2018		60,000
	\$	<u>249,371</u>

On September 30, 2007, the Bank adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires the Bank to recognize the funded status of its defined benefit pension plan and other postretirement plan as liabilities in its balance sheet, with a corresponding adjustment to accumulated other comprehensive earnings, net of taxes. The adjustment to accumulated other comprehensive earnings at adoption represents the unrecognized transition obligation, unrecognized prior service cost and net unrecognized actuarial gains. These amounts were previously netted against the funded status of its plans as liabilities. The amounts will be subsequently recognized as net periodic costs. Further, actuarial gains and losses that arise in subsequent periods will be recognized as a component of accumulated other comprehensive earnings. The incremental effect of applying SFAS No. 158 on other liabilities and stockholders' equity was considered immaterial.

Amounts recognized in accumulated other comprehensive earnings, net are summarized as follows:

		<u>2008</u>	<u>2007</u>
Unrecognized transition obligation	\$	62,676	75,214
Unrecognized prior service cost		(48,323)	(57,988)
Unrecognized actuarial gain		(122,621)	(153,948)
		<u>(108,268)</u>	<u>(136,722)</u>
Tax effect		37,894	47,853
Unrecognized gain, net of taxes	\$	<u>(70,374)</u>	<u>(88,869)</u>

The estimated amounts that will be amortized from accumulated other comprehensive earnings into net periodic cost for 2009 are as follows:

Unrecognized transition obligation	\$	12,538
Unrecognized prior service cost		(9,665)
Unrecognized actuarial gain		<u>(21,813)</u>
	\$	<u>(18,940)</u>

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Employee Stock Ownership Plan (ESOP)

The Bank has established an ESOP for the benefit of participating employees. Participating employees are employees who are normally scheduled to work at least twenty hours a week. After participants complete plan eligibility requirements they become 20% vested after one year of service, and 20% for each additional year of service until benefits are 100% vested after 5 years. The Bank makes annual contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated ESOP shares used to repay the ESOP loan. Dividends on allocated ESOP shares are paid to participants of the ESOP and charged to retained earnings. The ESOP shares are pledged as collateral on the ESOP loan. As the loan is repaid, shares are released from collateral and allocated to participating employees, based on the proportion of loan repaid and compensation of the participants. The Plan permits offsetting forfeitures against employer contributions. Benefits become payable upon a participant's retirement, death, disability or separation from service. ESOP expense for 2008 and 2007 was \$296,378 and \$332,735, respectively.

ESOP shares prior to the July 21, 2006 conversion date have been adjusted by the exchange ratio of 3.5004. The number of ESOP shares allocated, shares released for allocation and unallocated shares, at September 30, 2008 were 153,614, 29,369 and 61,484 respectively. The number of ESOP shares allocated, shares released for allocation and unallocated shares at September 30, 2007 were 146,960, 31,134 and 90,853, respectively.

The fair value of unallocated ESOP shares at September 30, 2008 and 2007 was \$553,000 and \$973,000, respectively. The ESOP loan from the Company is secured solely by the common stock at an interest rate of 8.25%.

Stock Options

As authorized by the 2003 Incentive Equity and Deferred Compensation Plan (the "2003 Plan"), the Board of Directors granted 78,760 options to non-employee directors and 96,260 to certain officers and employees during fiscal year 2004. The Plan authorizes the award of up to 258,063 shares of common stock, subject to restrictions, to be issued to directors, officers and employees of the Bank. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire ten years from the date of the grant. Stock options to directors are fully vested on the grant date of June 16, 2004. Options granted to the Bank's CEO are vested over three years and three months and options granted to certain other officers and employees are vested over a five-year period. On January 27, 2005 the Board of Directors granted an additional 38,504 options to certain officers and employees. Options granted to the CEO are vested over a period of three years and eight months and options granted to certain officers and employees are vested over a five-year period. On November 23, 2005 the Board of Directors granted an additional 42,440 options to directors and officers. Options granted to the board, CEO, and certain officers, were vested over a ten-month period.

In connection with the completion of the Conversion in July 2006, the Company assumed the Plan and all outstanding options and shares were adjusted based on the 3.5004 exchange ratio. The exercise prices were adjusted to reflect the proportional change in values that resulted from the exchange.

LIBERTY BANCORP, INC.

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As authorized by the Liberty Bancorp, Inc. 2007 Equity Incentive Plan (the "2007 Plan"), the Board of Directors granted 25,150 options to non-employee directors and 65,500 options to certain officers and employees on February 27, 2007. The 2007 Plan authorizes the award of up to 100,691 options to purchase shares of common stock, subject to restrictions, to be issued to directors, officers and employees of the Bank. The Plan provides for the grant of stock options, stock appreciation rights, restricted stock and unrestricted stock. Options expire ten years from the date of the grant. All 90,650 options granted are vested over a five-year period.

The Company has estimated the fair value of awards granted for the years ended September 30, 2007 under its stock option plan utilizing the Black-Scholes pricing model to be \$3.00. There were no awards granted for the year ended September 30, 2008. The assumptions used in the Black-Scholes pricing model were as follows:

	<u>2008</u>	<u>2007</u>
Expected dividend yield		2.00%
Risk-free interest rate		4.53%
Expected life of options		7.50 years
Expected volatility		21.70%

Stock option expense is as follows:

	<u>2008</u>	<u>2007</u>
Pretax	\$ 75,347	67,553
After tax	71,639	43,234
Basic and diluted earnings per share	\$ 0.02	0.01

At September 30, 2008, the total unrecognized compensation expense related to nonvested stock options was \$143,792 and is expected to be recognized over the weighted-average period of 3.02 years.

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

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at September 30, 2006	234,963	\$ 7.31	8.07	\$ 686,092
Granted	90,650	11.27		-
Exercised	(1,050)	8.28		-
Expired				-
Forfeited	(1,500)	11.27		-
Outstanding at September 30, 2007	323,063	\$ 8.42	7.75	\$ 797,568
Granted				-
Exercised	(525)	8.28		-
Expired				-
Forfeited	(1,050)	8.28		-
Outstanding at September 30, 2008	321,488	\$ 8.40	6.72	\$ 396,443
Exercisable at September 30, 2008	236,162	\$ 7.58	6.25	\$ 376,843
Vested and expected to vest at September 30, 2008	236,162	\$ 7.58	6.25	\$ 376,843

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

	2008	2007
Intrinsic value of options exercised	\$ 1,076	2,909
Cash received from the exercise of options	4,347	8,695
Fair value of shares vested	415,793	268,769

Shares exercisable and weighted-average exercise prices were 236,162 and \$7.58 at September 30, 2008, respectively and 194,005 and \$7.20 at September 30, 2007, respectively.

Restricted Stock Awards

During fiscal year 2004, as authorized by the 2003 Plan, two directors each received a restricted stock award of 6,125 shares as adjusted by the exchange ratio of 3.5004, which vests over three years. On February 27, 2007, as authorized by the 2007 Plan, the Board of Directors granted 31,400 restricted stock awards to non-employee directors and 78,000 awards to certain officers and employees. The 2007 Plan authorizes the award of up to 125,649 shares of common stock, subject to restrictions, to be issued to directors, officers and employees of the Bank. Subsequently, 125,649 shares were repurchased by a trust to fund the restricted stock

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awards. All awards are vested over a five-year period. A summary of the Company's restricted stock compensation expense is as follows:

		2008	2007
Pretax	\$	246,588	162,519
After tax	\$	160,282	105,637

At September 30, 2008, the total unrecognized expense was \$842,508 and is expected to be recognized over the next 3.41 years.

A summary of the Company's nonvested stock award activity for 2008 is as follows:

	Number of Nonvested Shares		Weighted- Average Grant Date Fair Value
Nonvested at October 1, 2007	109,400	\$	11.27
Granted			
Vested	(21,880)		11.27
Forfeited			
Nonvested at September 30, 2008	87,520	\$	11.27

Directors' Retirement Plan

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

The vesting percentage shall be determined based upon the participant's years of service on the Board, whether before or after the reorganization date, according to the following schedule:

Full Years of Service on the Board	Non-Employee Director's Vested Percentage
Less than 10	0%
10 to 14	25%
15 to 19	50%
20 to 24	75%
25 or more	100%

If an active director covered under the plan terminates service of the Board due to disability, the director's annual benefit for ten years will be \$15,000. In the event that the participant dies before collecting any or all of the benefits, the Bank shall pay the participant's

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surviving spouse. No benefits shall be payable to anyone other than the surviving spouse, and shall terminate on the death of the surviving spouse.

The following table sets forth the plan's funded status and amounts recognized in other liabilities in the financial statements:

	2008	2007
Actuarial present value of benefit obligations -		
vested accumulated benefits	\$ (205,310)	(222,934)
Unrecognized prior service cost	-	-
Unrecognized actuarial gain	-	-
Overaccrual	(7,580)	(4,994)
Accrued directors' retirement plan	\$ (212,890)	(227,928)

A reconciliation of the accumulated benefit obligation is summarized as follows:

	2008	2007
Balance, beginning of year	\$ (222,934)	(234,288)
Service cost	(2,597)	(2,597)
Interest cost	(13,376)	(14,057)
Benefits paid	31,000	31,000
Actuarial gain (loss)	2,597	(2,992)
Balance, end of year	\$ (205,310)	(222,934)

The average discount rate used in determining the accumulated benefit obligation was 6% at and for the years ended September 30, 2008 and 2007.

Net pension cost includes the following components:

	2008	2007
Service costs - benefits earned during the year	\$ 2,597	2,597
Interest cost on benefit obligation	13,376	14,057
Amortization of prior service cost	7,526	7,526
Amortization of actuarial gain	(2,101)	(918)
Overaccrual	-	3,138
Net pension cost	\$ 21,398	26,400

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Retirement benefits under the plan expected to be paid in each of the next five years and in the aggregate for the five years thereafter are summarized as follows:

October 1, 2008 to September 30, 2009	\$ 31,000
October 1, 2009 to September 30, 2010	23,000
October 1, 2010 to September 30, 2011	15,000
October 1, 2011 to September 30, 2012	15,000
October 1, 2012 to September 30, 2013	15,000
October 1, 2013 to September 30, 2018	75,000
	\$ 174,000

Amounts recognized in accumulated other comprehensive earnings, net are summarized as follows:

	2008	2007
Unrecognized prior service cost	\$ 37,629	45,155
Unrecognized actuarial gain	(35,741)	(34,901)
	1,888	10,254
Tax effect	(661)	(3,589)
Unrecognized loss, net of taxes	\$ 1,227	6,665

The estimated amounts that will be amortized from accumulated other comprehensive earnings into net periodic cost for 2009 are as follows:

Unrecognized prior service cost	\$ 7,526
Unrecognized gain	(2,976)
	\$ 4,550

(13) Stockholders' Equity, Minimum Regulatory Capital Requirements and Subsequent Event

On August 23, 1993 the Bank completed its reorganization from a state-chartered mutual savings bank into a Federal mutual holding company. The reorganization was accomplished through a purchase and assumption of assets and liabilities whereby the Bank (i) incorporated a Missouri-chartered stock savings bank; (ii) converted the Bank's charter to a Federally-chartered mutual holding company; (iii) transferred substantially all of the Bank's assets and liabilities to the newly formed stock savings bank in exchange for 800,000 shares of common stock; and (iv) adopted a new charter issued by the Office of Thrift Supervision (OTS) changing its form to that of a Federally-chartered mutual holding company known as Liberty Savings Mutual Holding Company (MHC).

Concurrent with the reorganization, 500,000 shares of the Bank's common stock were issued in an offering to the Bank's ESOP and MRPs established for the benefit of officers and employees of the Bank, certain members of the Bank and members of the general public. Each share of common stock was sold at a price of \$10.00 per share. The MHC owned 800,000 of the Bank's outstanding common stock. Subsequent to the offering an additional 14,276 shares of the Bank's common stock were issued to the MRPs.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

On July 21, 2006 our organization converted from the partially public mutual holding company form to the fully public stock holding company structure. In the stock holding company structure, all of the Bank's stock is owned by Liberty Bancorp, Inc., and all of Liberty Bancorp's stock is owned by the public and our employee stock ownership plan. Liberty Savings Mutual Holding Company no longer exists and the name of the bank, Liberty Savings Bank, F.S.B., was changed to BankLiberty. Depositors and borrowers do not have voting rights in the Bank. Voting rights were vested exclusively with stockholders of the Company. A liquidation account was established at the time of Conversion in an amount equal to \$21.1 million, the capital of the Bank as of the date of the latest balance sheet contained in the final prospectus. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the account holder's or supplemental account holder's deposit balance falls below the amount on the date of record and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase in the related deposit balance.

As part of the conversion, we sold 2,807,383 shares of common stock at a price of \$10.00 per share representing the majority ownership of Liberty Savings Bank that was held by Liberty Savings Mutual Holding Company. At the conclusion of the conversion, existing public stockholders of Liberty Savings Bank were issued 3.5004 shares of Liberty Bancorp, Inc. in exchange for each share of Liberty Savings Bank common stock, or 1,952,754 shares. Fractional shares in the aggregate, or 36 shares, were redeemed for cash. Total shares outstanding after the offering and the exchange totaled 4,760,137 shares. Net proceeds from the sale of common stock in the offering were \$25,647,944, after deduction of conversion costs of \$1,257,890, and unearned compensation related to shares issued to the ESOP of \$1,167,996. In addition, as part of the Conversion and dissolution of Liberty Savings Mutual Holding Company, the Bank received \$694,397 of cash previously held by the MHC. The Company retained 50% of the net conversion proceeds less funds to originate a loan to a trust for the ESOP, and used the balance of the net proceeds to purchase all of the stock in the Bank in the Conversion.

On August 6, 2007 the Company announced a stock repurchase program to acquire 476,119 shares, or 10%, of the Company's outstanding common stock. On December 20, 2007, a second stock repurchase program was approved to acquire up to 222,048 shares or 5%, of the Company's common stock. On February 22, 2008, a third stock repurchase program was approved to acquire up to 408,170, or 10%, of the Company's common stock. Repurchases will be conducted through open market purchases or privately negotiated transactions, from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators, which, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines, the Bank must meet specific guidelines, which involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to judgments by the regulators about components, risk-weightings and other factors. At September 30, 2008, the Bank met all capital adequacy requirements.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

The Bank is also subject to the regulatory framework for prompt corrective action. At September 30, 2008 and 2007, the most recent notification from the regulatory agencies categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the dates of the aforementioned notifications which management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios at September 30, 2008 are as follows:

	Actual		Minimum for Capital Adequacy		Required to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Stockholders' equity	\$ 38,863					
Computer software costs	(192)					
Unrealized gain, net - SFAS No. 158	(69)					
Unrealized gain on securities AFS, net	(269)					
Tangible capital	\$ 38,333	11.5%	\$ 4,983	1.5%		
General valuation allowance	2,633					
Total capital to risk-weighted assets	\$ <u>40,966</u>	14.4%	\$ 22,741	8.0%	\$ 28,426	10.0%
Tier 1 capital to risk-weighted assets	\$ 38,333	13.5%	\$ 11,371	4.0%	\$ 17,056	6.0%
Tier 1 capital to total assets	\$ 38,333	11.5%	\$ 13,288	4.0%	\$ 16,610	5.0%

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

The Bank's actual and required capital amounts and ratios at September 30, 2007 are as follows:

	Actual		Minimum for Capital Adequacy		Required to be "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Stockholders' equity	\$ 35,969					
Computer software costs	(39)					
Unrealized gain, net - SFAS No. 158	(82)					
Unrealized loss on securities AFS, net	94					
Tangible capital	\$ 35,942	10.8%	\$ 4,973	1.5%		
General valuation allowance	3,011					
Total capital to risk-weighted assets	\$ 38,953	15.1%	\$ 20,669	8.0%	\$ 25,837	10.0%
Tier 1 capital to risk-weighted assets	\$ 35,942	13.9%	\$ 10,335	4.0%	\$ 15,502	6.0%
Tier 1 capital to total assets	\$ 35,942	10.8%	\$ 13,260	4.0%	\$ 16,576	5.0%

An OTS regulation restricts the Bank's ability to make capital distributions, including paying dividends. The regulations do not permit cash dividend payments if the Bank's capital would be reduced below the amount of the minimum capital requirements or the liquidation account. The OTS may impose other restrictions.

During the years ended September 30, 2008 and 2007, the Bank paid cash dividends of \$402,956 and \$463,842, respectively.

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

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

Commitments to originate loans are legally binding agreements to lend to the Company's customers. Letters of credit are unconditional commitments issued by the Company to guarantee the performance of the borrower to a third party.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table sets forth information regarding off-balance sheet financial instruments as of September 30, 2008:

	Fixed-Rate	Adjustable-Rate
Off-balance sheet financial instruments:		
Commitments to originate loans	\$ 2,791,493	3,724,040
Commitments for unused lines of credit	\$ 210,317	10,586,840
Commitments for undisbursed loans	\$ 8,401,440	10,626,148
Commitments for letters of credit	\$ 358,136	

Interest rates on these fixed-rate loans generally ranged from 5.25% to 8.25%.

At September 30, 2008, there was no known pending litigation or other claims that management believes will be material to the Company's financial position.

(15) Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments are summarized as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-trading instruments and nonderivatives:				
Cash and cash equivalents	\$ 8,084,603	8,084,603	9,042,289	9,042,289
Securities available for sale	26,053,420	26,053,420	47,982,519	47,982,519
Stock in FHLB of Des Moines	3,576,300	3,576,300	1,531,200	1,531,200
Mortgage-backed securities available for sale	13,989,151	13,989,151	19,276,996	19,276,996
Loans receivable, net	256,713,257	262,427,542	232,307,925	234,510,039
Loans held for sale	877,246	877,246	719,086	719,086
Accrued interest receivable	1,640,478	1,640,478	2,055,814	2,055,814
Deposits	219,763,837	220,125,700	252,305,482	252,323,699
Accrued interest on deposits	297,656	297,656	601,285	601,285
Advances from FHLB	69,240,870	68,890,734	26,430,394	26,670,801
Securities sold under agreement to repurchase	\$ 812,500	806,000	1,221,184	1,220,451

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents are valued at their carrying amounts due to the relatively short period to maturity of the instruments. Fair values of securities and mortgage-backed securities are based on quoted market prices or, if unavailable, quoted market prices of similar securities.

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

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

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

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

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

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

(16) Parent Company Only Financial Statements

The following balance sheets and statements of earnings and cash flows for Liberty Bancorp, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

Balance Sheets

September 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,084,524	11,556,962
Investment in subsidiary	38,863,988	35,968,431
Securities available for sale	471,515	393,884
ESOP note receivable	490,439	706,935
Loans receivable, net of allowance for loan losses of \$0	3,085,454	1,600,000
Accrued interest receivable - loans	7,420	7,700
Accrued interest receivable - other	-	2,240
Other assets	41,710	12,039
Total assets	<u>\$ 44,045,050</u>	<u>50,248,191</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 28,307	13,500
Accrued income taxes	7,639	40,158
Total liabilities	<u>35,946</u>	<u>53,658</u>
Stockholders' equity:		
Common stock	47,617	47,612
Treasury stock, at cost	(8,632,753)	-
Additional paid-in capital	32,320,258	31,923,289
Common stock acquired by ESOP	(474,634)	(701,309)
Accumulated other comprehensive earnings, net	292,484	(12,619)
Retained earnings - substantially restricted	20,456,132	18,937,560
Total stockholders' equity	<u>44,009,104</u>	<u>50,194,533</u>
Total liabilities and stockholders' equity	<u>\$ 44,045,050</u>	<u>50,248,191</u>

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

Statements of Earnings

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Interest income and dividend income:		
Loans receivable	\$ 103,301	78,390
ESOP note receivable	58,322	75,727
Other interest-earning assets	<u>135,327</u>	<u>498,003</u>
Total interest income	296,950	652,120
Dividend income - BankLiberty		<u>2,500,000</u>
Total interest and dividend income	296,950	3,152,120
Noninterest expense	<u>305,080</u>	<u>298,477</u>
Earnings (loss) before income taxes and equity in undistributed earnings of the Bank	(8,130)	2,853,643
Income taxes	<u>(3,000)</u>	<u>131,000</u>
Net earnings (loss) before equity in earnings of Bank	(5,130)	2,722,643
Equity in undistributed earnings of subsidiary (dividends received in excess of earnings of subsidiary)	<u>1,926,658</u>	<u>(778,249)</u>
Net earnings	<u>\$ 1,921,528</u>	<u>1,944,394</u>

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

Statements of Cash Flows

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net earnings	\$ 1,921,528	1,944,394
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Equity in undistributed net earnings of BankLiberty	(1,926,658)	(1,721,751)
ESOP expense	296,378	332,735
Incentive Plan expense	321,935	230,072
Decrease (increase) in:		
Accrued interest receivable	2,520	(5,357)
Other assets	(2,959)	(3,368)
Increase (decrease) in:		
Other liabilities	14,807	13,500
Accrued income taxes	(32,519)	6,158
Net cash provided by (used for) operating activities	<u>595,032</u>	<u>796,383</u>
Cash flows from investing activities:		
Net change in loans receivable	(1,485,454)	2,799,902
Purchase of subsidiary	(618,313)	(562,809)
Dividend from subsidiary	-	2,500,000
Purchase of securities	(149,826)	(394,623)
Repayment of ESOP loan	216,496	210,971
Net cash provided by (used for) investing activities	<u>(2,037,097)</u>	<u>4,553,441</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	4,347	8,695
Cash dividends	(402,956)	(463,842)
Repurchase of common stock	(8,632,753)	(1,399,608)
Other	989	-
Net cash provided by (used for) financing activities	<u>(9,030,373)</u>	<u>(1,854,755)</u>
Net increase (decrease) in cash and cash equivalents	(10,472,438)	3,495,069
Cash and cash equivalents at beginning of year	<u>11,556,962</u>	<u>8,061,893</u>
Cash and cash equivalents at end of year	\$ <u>1,084,524</u>	<u>11,556,962</u>

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

(17) Selected Quarterly Financial Data (Unaudited)

The results of operations by quarter for the years ended September 30, 2008 and 2007 were as follows:

Year Ended September 30, 2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Income income	\$ 5,473,948	\$ 5,059,831	\$ 4,948,300	\$ 4,674,507
Interest expense	(2,942,319)	(2,482,307)	(2,023,499)	(1,936,305)
Net interest income	2,531,629	2,577,524	2,924,801	2,738,202
Provision for loan losses	(180,000)	(270,175)	(1,173,000)	(258,000)
Net interest income after provision for loan losses	2,351,629	2,307,349	1,751,801	2,480,202
Noninterest income	478,144	512,728	540,161	592,785
Noninterest expense	(2,072,100)	(2,215,317)	(1,886,173)	(2,213,681)
Earnings before income taxes	757,673	604,760	405,789	859,306
Income taxes	(226,000)	(152,000)	(82,000)	(246,000)
Net earnings	\$ 531,673	\$ 452,760	\$ 323,789	\$ 613,306
Basic earnings per share	\$ 0.12	\$ 0.12	\$ 0.09	\$ 0.15
Diluted earnings per share	\$ 0.12	\$ 0.12	\$ 0.09	\$ 0.14

Year Ended September 30, 2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Income income	\$ 4,875,692	\$ 4,910,595	\$ 5,243,653	\$ 5,533,234
Interest expense	(2,332,378)	(2,436,057)	(2,692,641)	(3,033,052)
Net interest income	2,543,314	2,474,538	2,551,012	2,500,182
Provision for loan losses	(32,000)	(166,202)	(267,105)	(136,782)
Net interest income after provision for loan losses	2,511,314	2,308,336	2,283,907	2,363,400
Noninterest income	329,870	310,189	363,227	474,164
Noninterest expense	(1,966,408)	(2,055,220)	(2,033,136)	(1,991,249)
Earnings before income taxes	874,776	563,305	613,998	846,315
Income taxes	(315,000)	(190,000)	(208,000)	(241,000)
Net earnings	\$ 559,776	\$ 373,305	\$ 405,998	\$ 605,315
Basic and diluted earnings per share	\$ 0.12	\$ 0.08	\$ 0.09	\$ 0.13

LIBERTY BANCORP, INC.

Notes to Consolidated Financial Statements

(18) Subsequent Event – Business Combination

On November 7, 2008, the Company acquired KLT Bancshares, Inc., the parent company of Farley State Bank. Shareholders of Farley State Bank received total merger consideration of \$4.5 million, consisting of entirely cash. The Company incurred acquisition costs of approximately \$240,000. The acquisition was accounted for using the purchase method under Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." Fair value adjustments on the assets acquired and liabilities assumed will be depreciated or amortized as applicable, over the estimated useful lives of the related assets and liabilities. The core deposit intangible of \$1.1 million will be amortized over 10.2 years using the double declining balance method. The Company recorded fair value accounting adjustments of \$409,000, net of income taxes of \$239,000 and core deposit intangibles of \$665,000, net of income taxes of \$391,000. Based upon Farley State Bank's stockholders' equity of \$2.5 million, goodwill amounted to approximately \$1.1 million at November 7, 2008. The excess purchase price has been allocated to goodwill and identifiable intangible assets in accordance with current accounting literature. Such amounts are subject to minor adjustments in the near future as additional analysis is performed or obtained from third parties. As a result of the acquisition, the Bank will operate two additional full-service offices and expand its market area.

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

Cash and due from banks	\$	1,373,913
Federal funds sold		2,234,000
Securities available for sale		9,658,286
Federal Home Loan Bank stock and MIB stock		107,300
Loans, net		20,743,173
Property and equipment, net		2,780,368
Accrued interest receivable		209,992
Goodwill		1,155,888
Core deposit intangible		1,056,000
Other assets		365,798
Total assets acquired		39,684,718
Deposits		33,963,890
Accrued interest payable		215,834
Advances from borrowers for taxes and insurance		69,896
Other liabilities		64,763
Deferred tax liability		630,335
Total liabilities assumed		34,944,718
Purchase price, including acquisition costs	\$	4,740,000

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIBERTY BANCORP, INC.

Date: December 29, 2008

By: /s/ Brent M. Giles
Brent M. Giles
Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Brent M. Giles
Brent M. Giles
Chief Executive Officer and Director
(Principal Executive Officer)

Date: December 29, 2008

By: /s/ Marc J. Weishaar
Marc J. Weishaar
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: December 29, 2008

By: /s/ Daniel G. O'Dell
Daniel G. O'Dell
Chairman of the Board

Date: December 29, 2008

By: /s/ Ralph W. Brant, Jr.
Ralph W. Brant, Jr.
Director

Date: December 29, 2008

By: /s/ Robert T. Sevier
Robert T. Sevier
Director

Date: December 29, 2008

By: /s/ Steven K. Havens
Steven K. Havens
Director

Date: December 29, 2008

LIBERTY BANCORP, INC.

Board of Directors of Liberty Bancorp, Inc. and BankLiberty

Daniel G. O'Dell
Chairman of the Board
President
O'Dell Publishing, Inc.

Steven K. Havens
President
Havens Construction Company, Inc.

Ralph W. Brant, Jr.
President
Brant's Clothing

Robert T. Sevier
Recorder of Deeds
Clay County

Brent M. Giles
President & Chief Executive Officer
Liberty Bancorp, Inc. and
BankLiberty

Officers of Liberty Bancorp, Inc.

Brent M. Giles
President and
Chief Executive Officer

Marc J. Weishaar
Senior Vice President and
Chief Financial Officer

Mark E. Hecker
Senior Vice President and
Chief Lending Officer

Cathy Trusler
Secretary

Martin J. Weishaar
Senior Vice President,
Chief Administrative Officer
and General Counsel

Officers of BankLiberty

Brent M. Giles
President and
Chief Executive Officer

Marc J. Weishaar
Senior Vice President and
Chief Financial Officer

Mark E. Hecker
Senior Vice President and
Chief Lending Officer

Martin J. Weishaar
Senior Vice President,
Chief Administrative Officer
and General Counsel

Kenneth M. Honeck
Senior Vice President
Retail Banking

LIBERTY BANCORP, INC.

Branch Offices

Headquarters

16 W. Franklin
Liberty, MO 64068-1637
(816) 781-4822

Platte City Branch

1401 Branch
Platte City, MO 64079
(816) 431-3033

Plattsburg Branch

1206 W. Clay
Plattsburg, MO 64477
(816) 539-3000

Shoal Creek Branch

9200 N.E. Barry Road
Kansas City, MO 64157
(816) 407-9200

Independence Branch

4315 S. Noland Road
Independence, MO 64055
(816) 350-4477

Boardwalk Branch

8740 N. Ambassador Drive
Kansas City, MO 64154
(816) 741-7979

Gladstone Branch

6410 N. Prospect
Gladstone, MO 64119
(816) 452-7300

Parkville Branch

6309 N. Hwy 9
Parkville, MO 64152
(816) 587-7700

Farley Branch

91 Main Street
Farley, MO 64028
(816) 330-3322

LIBERTY BANCORP, INC.

Investor Information

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held on Wednesday, February 11, 2009 at 5:30 p.m., local time, at 9200 N.E. Barry Road, Kansas City, Missouri.

LEGAL COUNSEL

Kilpatrick Stockton LLP
607 14th Street, NW
Washington, DC 20005

STOCK TRANSFER AGENT AND REGISTRAR

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016

AUDITORS

Michael Trokey & Company, P.C.
Certified Public Accountants
10411 Clayton Road
St. Louis, Missouri 63131

Form 10-K

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, INCLUDING FINANCIAL STATEMENT SCHEDULES, WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE ANNUAL MEETING RECORD DATE UPON WRITTEN REQUEST TO THE SECRETARY, LIBERTY BANCORP, INC., 16 W. FRANKLIN, LIBERTY, MISSOURI 64068.

END



LIBERTY BANCORP, INC.

16 W. Franklin • Liberty, MO 64068-1637

