

CRAZY WOMAN

Creek Bancorp



2009 ANNUAL REPORT

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CRAZY WOMAN CREEK BANCORP INCORPORATED

2009 ANNUAL REPORT

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CRAZY WOMAN

Creek Bancorp



To Our Stockholders:

I am pleased to present our annual report. We continue to go through significant growth and change.

In January, at the urging of our primary regulator, we applied for and were approved for TARP funding. We received \$3.1 million in funding at the holding company level and pushed \$2.0 million of capital into the Bank. This bolstered our Bank capital ratios and as of 9/30/09 we are at 12.27% risk based capital and 8.10% total capital to assets, exceeding the 12% and 8% regulatory capital requirements, allowing us to maintain our historically well capitalized status.

Total assets grew from \$133.078 million at September 30, 2008, to \$153.105 as of September 30, 2009, a 15% growth rate. Loan balances certainly reflected the national economic conditions and shrunk by nearly 1.5% from \$103.930 to \$102.661. Deposits grew from \$108.854 million to \$134.991, a 24% increase. Net income increased from \$253,000 to \$419,000 for the years ended September 30, 2008, and 2009, respectively.

The Powder River Basin area of Wyoming has seen significant decline in the level of economic activity related to coal bed methane drilling and production, a direct result of the significantly lower price of natural gas. The activity in transmission of both electricity and natural gas continue to provide some economic activity. Wyoming's economy has, within the last 12 months begun to feel the poor economic conditions the rest of the country has been feeling for the last two years. It is important that we remember, historically Wyoming has lagged the rest of the country going into tough economic times and lagged the rest of the country, coming out of poor economic times.

During fiscal year 2009 the economic conditions as noted above impacted our loan growth and increased our problem loans. During 2009 we had loan losses charged against the reserve of \$212,000 and write downs on other real estate owned of \$176,413. The majority of these losses have come from single family real estate, both owner occupied and non-owner occupied construction loans. In response to the deterioration in the quality of our loan portfolio we have adjusted our loan loss reserve calculation to more fairly represent the risk in that portion of the portfolio. We allocated \$328,000 to the reserve for loan losses during 2009 and increased our loan loss reserve as a percentage of total loans from .80% in 2008 to .93% in 2009. We will continue to aggressively collect problem loans and realize losses if necessary, and to bolster our reserve for loan losses.

As of October 30, 2009, Darold Destefano has joined our team as the new Branch President in the Sheridan market. Darold is a native of Sheridan and we are anticipating positive results from Darold in the near term.

Effective January 1, 2009, we implemented a contributory 401K program. This has made us more competitive for employees within our market area, and the net cost to the bank versus the ESOP plan, which matured, is insignificant.

Fiscal year 2010 will prove challenging as the officers and directors work our way through the current economic conditions and an ever changing regulatory environment. Development of new products and services will continue as an ongoing part of the planning process. I wish to personally invite all stockholders to our annual meeting that is scheduled for January 27, 2010.

Sincerely,

A handwritten signature in cursive script that reads "Gary J. Havens".

Gary J. Havens
President & Chief Executive Officer

A handwritten signature in cursive script that reads "Richard Reimann".

Richard Reimann
Chairman



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DOOLEY & JELLY

*Certified Public
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293 SOUTH MAIN STREET
BUFFALO, WYOMING 82834
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Independent Auditors' Report

The Board of Directors and Stockholders
Crazy Woman Creek Bancorp Incorporated
Buffalo, Wyoming

We have audited the accompanying consolidated balance sheets of Crazy Woman Creek Bancorp Incorporated and Subsidiary as of September 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crazy Woman Creek Bancorp Incorporated and Subsidiary as of September 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dooley & Jelly

December 18, 2009

CRAZY WOMAN CREEK BANCORP INCORPORATED AND SUBSIDIARY

Consolidated Balance Sheets
(Dollars in thousands except share and per share data)

September 30, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Cash and due from banks	\$ 3,499	1,815
Federal funds	8,800	1,900
Interest-bearing due from banks	1,119	548
Cash and cash equivalents	13,418	4,263
Investment and mortgage-backed securities available-for-sale	20,629	13,242
Stock in Federal Home Loan Bank of Seattle, at cost	1,332	1,332
Loans held-for-sale	6,359	2,656
Loans receivable, net	102,661	103,930
Accrued interest receivable	760	846
Premises and equipment, net	5,830	6,047
Repossessed other assets owned	1,597	268
Income tax receivable	119	245
Goodwill	178	178
Other assets	222	71
	<u>\$ 153,105</u>	<u>133,078</u>
 <u>Liabilities and Stockholders' Equity</u>		
Liabilities:		
Deposits	\$ 134,991	108,854
Advances from Federal Home Loan Bank	2,746	12,334
Other borrowed money	159	159
Advance payments by borrowers for taxes and insurance	57	52
Deferred income taxes	270	189
Dividends payable	77	77
Accrued expenses and other liabilities	557	489
Total liabilities	<u>138,857</u>	<u>122,154</u>
Stockholders' equity:		
Preferred stock, par value \$.10 per share, 2,000,000 shares authorized; 3,100 shares of series A and 155 shares of series B with a liquidation value of \$1,000 issued September 30, 2009; 0 shares issued September 30, 2008	3,100	—
Common stock, par value \$.10 per share, 5,000,000 shares authorized; 1,058,000 issued	106	106
Additional paid-in capital	10,319	10,312
Unearned ESOP/MSBP shares	(40)	(52)
Retained earnings	7,653	7,624
Accumulated other comprehensive loss, net	(4)	(170)
Treasury stock at cost, 416,795 and 416,795 shares at September 30, 2009 and September 30, 2008	(6,886)	(6,896)
Total stockholders' equity	<u>14,248</u>	<u>10,924</u>
	<u>\$ 153,105</u>	<u>133,078</u>

See accompanying notes to consolidated financial statements.

CRAZY WOMAN CREEK BANCORP INCORPORATED AND SUBSIDIARY

Consolidated Statements of Income
(Dollars in thousands except share and per share data)

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest income:		
Loans receivable	\$ 7,552	\$ 7,428
Mortgage-backed securities	130	147
Investment securities	302	435
Other interest-earning assets	<u>19</u>	<u>95</u>
Total interest income	<u>8,003</u>	<u>8,105</u>
Interest expense:		
Deposits	3,060	3,724
Advances from Federal Home Loan Bank	211	266
Other interest expense	<u>5</u>	<u>9</u>
Total interest expense	<u>3,276</u>	<u>3,999</u>
Net interest income	4,727	4,106
Provision for loan losses	<u>328</u>	<u>212</u>
Net interest income after provision for loan losses	<u>4,399</u>	<u>3,894</u>
Non-interest income:		
Customer service charges	352	334
Gain on sale of loans	1,096	1
Other operating income	<u>750</u>	<u>208</u>
Total non-interest income	<u>2,198</u>	<u>543</u>
Non-interest expense:		
Compensation and benefits	3,073	2,197
Occupancy and equipment	789	654
FDIC/SAIF deposit insurance premiums	185	70
Advertising	171	192
Data processing services	551	267
Professional fees	145	55
Loss on disposal of equipment	2	—
Loss on other repossessed assets	176	17
Other	<u>858</u>	<u>628</u>
Total non-interest expense	<u>5,950</u>	<u>4,080</u>
Income before income taxes	647	357
Income tax expense	<u>228</u>	<u>104</u>
Net income	<u>\$ 419</u>	<u>\$ 253</u>

See accompanying notes to consolidated financial statements.

CRAZY WOMAN CREEK BANCORP INCORPORATED AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity and Comprehensive Income
(Dollars in thousands except share and per share data)

Years ended September 30, 2009 and 2008

	Common stock	Additional paid-in capital	Preferred stock	Unearned ESOP/ MSBP shares	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders' equity
Balance at September 30, 2007	\$ 106	10,248	—	(163)	7,661	(4)	(6,846)	11,002
Comprehensive income:								
Net income	—	—	—	—	253	—	—	253
Unrealized loss on securities available-for-sale, net of reclassification adjustment	—	—	—	—	—	(166)	—	(166)
Total comprehensive income	—	—	—	—	—	—	—	87
Repurchase of 8,395 shares of common stock	—	—	—	—	—	—	17	17
Exercise of stock options 8,445 shares common	—	6	—	—	—	—	(92)	(86)
MSBP shares awarded (2,000 shares)	—	—	—	(25)	—	—	25	—
MSBP shares forfeited (1,100 shares)	—	—	—	—	—	—	—	—
ESOP shares committed to be released	—	46	—	115	—	—	—	161
MSBP shares vested	—	12	—	21	—	—	—	33
Cash dividends declared - common stock (\$.48 per share)	—	—	—	—	(290)	—	—	(290)
Balance at September 30, 2008	106	10,312	—	(52)	7,624	(170)	(6,896)	10,924
Comprehensive income:								
Net income	—	—	—	—	419	—	—	419
Unrealized gain on securities available-for-sale, net of reclassification adjustment	—	—	—	—	—	166	—	166
Total comprehensive income	—	—	—	—	—	—	—	585
MSBP shares awarded (1,000 shares)	—	—	—	(10)	—	—	10	—
Issuance of 3,255 preferred stock shares	—	—	3,100	—	—	—	—	3,100
MSBP shares vested	—	7	—	22	—	—	—	29
Cash dividends declared- preferred stock	—	—	—	—	(82)	—	—	(82)
Cash dividends declared - common stock (\$.48 per share)	—	—	—	—	(308)	—	—	(308)
Balance at September 30, 2009	\$ 106	10,319	3,100	(40)	7,653	(4)	(6,886)	14,248

See accompanying notes to consolidated financial statements.

CRAZY WOMAN CREEK BANCORP INCORPORATED AND SUBSIDIARY

Consolidated Statements of Cash Flows
(Dollars in Thousands)

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 419	253
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	328	212
Provision for EDP/EPO	11	19
Loans originated for sale	(73,213)	—
Proceeds from sales of loans held-for-sale	69,499	—
Amortization of premiums and discounts on investment securities	85	(24)
Deferred income tax (benefit) expense	(4)	16
Depreciation	335	309
Mutual fund dividends reinvested	(33)	(55)
Deferred loan origination fees, net	(17)	26
Loss on disposal of equipment	2	—
(Gain)/ Loss on other repossessed assets	176	17
ESOP shares committed to be released	—	161
MSBP compensation expense	22	21
Change in:		
Accrued interest receivable	86	(53)
Other assets	(152)	53
Income taxes payable	133	(224)
Accrued expenses and other liabilities	68	(92)
Net cash (used in) provided by operating activities	<u>(2,255)</u>	<u>639</u>
Cash flows from investing activities:		
Purchases of securities available-for-sale	(14,212)	(10,402)
Proceeds from maturities, calls and prepayments of securities available-for-sale	7,024	10,621
Proceeds from sale of real estate owned	487	—
Change in loans receivable	(1,033)	(15,899)
Purchases of premises and equipment	(120)	(362)
Net cash (used in) investing activities	<u>(7,854)</u>	<u>(16,042)</u>
Cash flows from financing activities:		
Net increase in deposits	26,137	6,418
Advances from Federal Home Loan Bank	13,117	14,800
Repayment of advances from Federal Home Loan Bank	(22,705)	(6,247)
Advances on other borrowed money	—	159
Net (increase) decrease in advances from borrowers for taxes and insurance	5	6
Issuance of preferred stock	3,100	—
Exercise of stock options	—	(86)
Acquisition of treasury stock	—	17
Dividends paid to stockholders-preferred	(82)	—
Dividends paid to stockholders-common	(308)	(290)
Net cash (used in) provided by financing activities	<u>19,264</u>	<u>14,777</u>
Net increase (decrease) in cash and cash equivalents	9,155	(626)
Cash and cash equivalents at beginning of year	4,263	4,889
Cash and cash equivalents at end of period	\$ <u>13,418</u>	<u>4,263</u>
Cash paid during the period for:		
Interest	\$ 3,318	4,036
Income taxes	100	312

Noncash investing and financing activities:

During 2009 and 2008, respectively, the Company transferred \$1,992 and 0 from loans to foreclosed real estate and other assets owned.

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Nature of Operations

Buffalo Federal Savings Bank (BFSB) provides services to individual and corporate customers through its Branch offices operating under the name of “The Bank” in Buffalo, Gillette, Sheridan and Casper, Wyoming. BFSB has mortgage operations in Seattle, WA; Puyallup, WA; Beaverton, OR and Evanston, WY. BFSB offers a variety of deposit products to its customers while concentrating its lending activities on real estate loans. These real estate lending activities focus primarily on the origination of loans secured by one-to-four family residential real estate but also include the origination of multi-family, commercial real estate and home equity loans. BFSB is subject to competition from other financial service providers, is also subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Crazy Woman Creek Bancorp Incorporated (the Holding Company) and its wholly-owned subsidiary, Buffalo Federal Savings Bank (BFSB). The Holding Company and BFSB are herein referred to collectively as “the Company.” All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate; however, future additions to the allowance may be necessary based on changes in factors affecting the borrowers' ability to repay and growth of the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require BFSB to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash, daily interest demand deposits, amounts due from banks and interest-bearing deposits with banks with original maturities of three months or less to be cash equivalents.

Investment Securities Available-for-Sale

Investment securities available-for-sale include securities that management intends to use as part of its overall asset/liability management strategy and that may be sold in response to changes in interest rates and resultant prepayment risk and other related factors. Securities available-for-sale are carried at fair value and unrealized gains and losses (net of related tax effects) are excluded from earnings and reported as a separate component of stockholders' equity.

The carrying value of securities is adjusted for amortization of premiums and accretion of discounts using the level-yield method over the estimated lives of the securities. Upon realization, gains and losses from the sale of securities are included in earnings using the specific identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs

are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value..

Loans Available for Sale

The mortgage division of the Company closes mortgage loans for the purpose of selling them to the secondary market. These loans are classified as available for sale. The gains on the sale of the loans are recorded as income when the loan is paid off by the investor.

EDP/EPO Reserve

EDP/EPO reserve is established to estimate the repurchase of sold loans. The bank may have to repurchase sold loans due to either borrower early defaults or early payoffs. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Stock in Federal Home Loan Bank

The Company holds stock in the Federal Home Loan Bank (FHLB). FHLB stock is restricted because it may only be sold to another member institution or the FHLB at its par value. Due to restrictive terms, and the lack of a readily determinable market value, FHLB stock is carried at cost.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future, until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against current year's interest income. Payments received on a loan on nonaccrual status are charged against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Restructured loans are those on which concessions in terms have been made as a result of deterioration in a borrower's financial condition. Interest on these loans is accrued under the new terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is

inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Foreclosed Real Estate and Other Assets Owned

Real estate and other assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of fair value or the loan balance on the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the initial carrying value or fair value less costs to sell. Any decline in value subsequent to foreclosure is reported as a loss on foreclosed assets. Operating expenses relative to foreclosed assets are expenses as incurred, while certain improvements and other costs may be capitalized if the expenditures are likely to be recaptured upon disposition of the asset. Gain or loss on the sale of foreclosed assets, if any, is recognized at the time of sale. Foreclosed real estate at September 30, 2009, and 2008, was \$710 and \$268 respectively. Repossessed other assets at September 30, 2009, and 2008, was \$887 and \$0 respectively.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of 39 or 40 years for the buildings and 5 to 10 years for furniture, fixtures and equipment.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired and is tested for impairment annually or more often if an event occurs or circumstances change that would indicate an impairment may exist.

Other Assets

Other assets, including core deposit intangibles, are reviewed for impairment whenever events or circumstances indicate the carrying amount of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows is less than the carrying amount of the asset. If impaired, an impairment loss is recognized to reduce the carrying value of the asset to its fair value. No other assets were identified as impaired as of September 30, 2009, or 2008.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN 48). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. Adoption of FIN 48 did not have a significant impact on the Company's financial statements.

The Company files a consolidated income tax return with the Bank; however, income tax expense is allocated to the entities on a separate return basis. The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2003.

Stock-Based Compensation

Compensation cost for stock-based compensation to employees is measured at the grant date using the intrinsic value method. Under the intrinsic value method, compensation cost is the excess of the market price of the stock at the grant date over the amount an employee must pay to ultimately acquire the stock and is recognized as compensation expense over any related service period. *Accounting for Stock-Based Compensation* established accounting and disclosure requirements using a fair value-based method of accounting for stock-based compensation plans. Compensation expense for nonemployee stock option grants is measured at the grant date based on the fair value of the award. As allowed by the statement, the

Company has elected to continue to apply the intrinsic value method of accounting for employee stock option grants described above, and has adopted the disclosure requirements.

Based on the terms of options granted and using the intrinsic value method, no compensation cost has been recognized for any stock option grants in the accompanying consolidated financial statements. Had the Company determined compensation cost based on the estimated fair value at the grant date for its stock options, the Company's net income and net income per share for the years ended September 30, 2009 and 2008, would have been as follows:

		<u>2009</u>	<u>2008</u>
Net income: As reported after preferred dividends	\$	337	253
Pro forma		330	249
Basic earnings per share: As reported	\$	0.50	0.38
Pro forma		0.49	0.38
Diluted earnings per share: As reported	\$	0.50	0.38
Pro forma		0.49	0.37

The plan expired October 2, 2006.

Earnings per Share

Basic earnings per share (EPS) is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period less unvested management stock bonus plan, treasury stock and unallocated ESOP shares. Diluted earnings per share is calculated by dividing such net income by the weighted average number of common shares used to compute basic EPS plus the incremental amount of potential common stock determined by the treasury stock method.

Fiscal Year

The Company's fiscal year ends on September 30. Unless otherwise noted, references to a fiscal year refer to the year in which such fiscal year ends.

Comprehensive Income

Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income is unrealized gains and losses on securities available-for-sale.

(2) Investment Securities Available-for-Sale

The amortized cost, gross unrealized gains and losses, and estimated fair values of investment securities available-for-sale at September 30 are as follows:

2009	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. agency/treasury obligations	\$ 16,140	96	(31)	16,205
Municipal securities	990	8	–	998
Mutual funds	927	–	(163)	764
Mortgage-backed securities:				
FHLMC certificates	121	1	(1)	121
FNMA certificates	2,457	84	–	2,541
Total MBS	2,578	85	(1)	2,662
	<u>\$ 20,635</u>	<u>189</u>	<u>(195)</u>	<u>20,629</u>
2008	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. agency obligations	\$ 8,341	5	(72)	8,274
Municipal securities	1,112	10	–	1,122
Mutual funds	894	–	(164)	730
Mortgage-backed securities:				
FHLMC certificates	145	2	–	147
FNMA certificates	3,009	6	(46)	2,969
Total MBS	3,154	8	(46)	3,116
	<u>\$ 13,501</u>	<u>23</u>	<u>(282)</u>	<u>13,242</u>

Maturities of securities available-for-sale (other than mutual funds) at September 30, 2009, are shown below. Mortgage-backed securities are included in this maturity schedule based on contractual maturity.

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 6,928	6,966
Due after one year through five years	10,479	10,599
Due after five years through ten years	2,126	2,125
Due after ten years	175	175
	<u>\$ 19,708</u>	<u>19,865</u>

At September 30, 2009 and 2008, the Company had investment securities with amortized costs of approximately \$5,349 and \$6,714 pledged as security for public funds or other funds on deposit.

Information pertaining to securities with gross unrealized losses at September 30, 2009 and 2008, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
2009						
U.S. agency/treasury obligations	\$ 6,953	(31)	–	–	6,953	(31)
Mutual funds	–	–	764	(163)	764	(163)
Mortgage-backed securities:						
FHLMC certificates	75	(1)	–	–	75	(1)
	<u>\$ 7,028</u>	<u>(32)</u>	<u>764</u>	<u>(163)</u>	<u>7,792</u>	<u>(195)</u>
2008						
U.S. agency/treasury obligations	\$ 6,269	(72)	–	–	6,269	(72)
Mutual funds	730	(164)	–	–	730	(164)
Mortgage-backed securities:						
FNMA certificates	1,097	(23)	1,159	(23)	2,256	(46)
	<u>\$ 8,096</u>	<u>(259)</u>	<u>1,159</u>	<u>(23)</u>	<u>9,255</u>	<u>(282)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis. Consideration is given to 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and the near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold securities until maturity or a sufficient period of time to allow for anticipated recovery in fair value, no declines are deemed to be other-than-temporary.

(3) Loans Receivable, Net

Loans receivable, net at September 30 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Real estate mortgage loans, including commercial real estate	\$ 66,129	66,500
Real estate construction loans, including commercial real estate	13,561	14,262
Consumer loans	6,123	5,765
Home equity loans	4,067	3,511
Commercial and agricultural loans	15,438	14,398
Savings account and other loans	585	652
	<u>105,903</u>	<u>105,088</u>
Less:		
Loans in process	2,223	237
Allowance for loan losses	974	859
Net deferred loan origination fees	45	62
	<u>\$ 102,661</u>	<u>103,930</u>

The adjustable rate mortgages included in real estate mortgage loans were \$46,680 and \$41,856 at September 30, 2009 and 2008, respectively.

The weighted average stated interest rate of loans receivable was 6.63% and 7.19%, respectively at September 30, 2009 and 2008.

There were no first mortgage loans pledged as collateral for public funds or for other funds on deposit with BFSB at September 30, 2009 and 2008.

A summary of activity in the allowance for loan losses is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 859	670
Provision	328	212
Losses charged against the allowance	(228)	(25)
Recoveries of amounts previously charged off	15	2
Balance at end of year	<u>\$ 974</u>	<u>859</u>

BFSB is not committed to lend additional funds to debtors whose loans have been modified. BFSB's impaired loans, which include those loans currently reported as nonaccrual, amounted to approximately \$257 and \$1,444 at September 30, 2009 and 2008, respectively, and were not subject to a specific allowance for loan losses because of the estimated net realizable value of loan collateral, guarantees and other factors. The average recorded investment in impaired loans for the years ended September 30, 2009 and 2008, was approximately \$571 and \$378, respectively. Interest income that would have been recorded on impaired loans if such loans had been current for the entire period would have been approximately \$48 and \$31 for the years ended September 30, 2009 and 2008, respectively.

Certain officers and directors of the Holding Company and BFSB and certain corporations and individuals related to such persons, as well as certain stockholders of the Holding Company, have loans from the BFSB of approximately \$928 and \$1,117 at September 30, 2009 and 2008, respectively. During 2009, new loans and advances on existing loans of approximately \$674 were funded and repayments totaled approximately \$863. These loans were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other customers and did not involve more than normal risk of collectability.

A summary of activity in foreclosed assets is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 268	285
Transfers from loans and cash payments to redeem senior lien holders	1,992	–
Dispositions	(525)	–
Write-downs	<u>(138)</u>	<u>(17)</u>
Balance at end of year	<u>\$ 1,597</u>	<u>268</u>

Net expense from foreclosed assets is as follows:

	<u>2009</u>	<u>2008</u>
Write-downs	\$ 138	17
Net loss on dispositions	38	–
Income from foreclosed real estate (rent)	(9)	–
Operating expenses	<u>38</u>	<u>4</u>
Balance at end of year	<u>\$ 205</u>	<u>21</u>

(4) Accrued Interest Receivable

Accrued interest receivable at September 30 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Investment securities	\$ 93	123
Mortgage-backed securities	10	13
Loans receivable	<u>657</u>	<u>710</u>
	<u>\$ 760</u>	<u>846</u>

(5) Premises and Equipment

Premises and equipment at September 30 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Land and buildings	\$ 5,827	5,826
Furniture, fixtures and equipment	<u>2,157</u>	<u>2,078</u>
	7,984	7,904
Less accumulated depreciation	<u>2,154</u>	<u>1,857</u>
	<u>\$ 5,830</u>	<u>6,047</u>

(6) Leased Property

Net rental expense approximated \$103 and \$42 for years ended September 30, 2009 and 2008, respectively. BFSB leases office buildings for the mortgage department. The leases range in terms up to 8 months.

The company's obligations for minimum rentals under non-cancelable leases are as follow:

Year ended September 30,

2010	\$23
2011-2014	\$ 0

(7) Deposits

Deposits at September 30 are summarized as follows:

	<u>2009</u>			<u>2008</u>	
	<u>Weighted Average rate</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Demand, NOW and MMDA accounts	0.60%	\$ 39,211	29.05%	30,438	28.0%
Passbook savings	0.40	<u>7,353</u>	<u>5.45</u>	<u>7,501</u>	<u>6.9</u>
Certificates of deposit, by interest rate	0.01 to 1.00	3,344	2.48		
	1.01 to 2.00	13,106	9.71		
	2.01 to 3.00	45,682	33.84	9,298	8.5
	3.01 to 4.00	15,852	11.74	34,329	31.5
	4.01 to 5.00	5,095	3.77	14,146	13.0
	5.01 to 6.00	<u>5,348</u>	<u>3.96</u>	<u>13,142</u>	<u>12.1</u>
Total certificates of deposit		<u>88,427</u>	<u>65.50</u>	<u>70,915</u>	<u>65.1</u>
Total deposits		<u>\$ 134,991</u>	<u>100.0%</u>	<u>108,854</u>	<u>100.0%</u>

Certificates of deposit and savings accounts of \$100 or greater were approximately \$38,834 and \$29,028 at September 30, 2009 and 2008, respectively.

Certificates of deposit at September 30, 2009, are scheduled to mature as follows:

Year ending September 30	Amount
2010	\$ 68,289
2011	11,329
2012	3,897
2013	4,912
	<u>88,427</u>
	<u>\$ 88,427</u>

Interest expense on deposits for the years ended September 30 is summarized as follows:

	2009	2008
NOW accounts and MMDA	\$ 315	344
Certificates of deposit and savings	2,745	3,380
	<u>3,060</u>	<u>3,724</u>
	<u>\$ 3,060</u>	<u>\$ 3,724</u>

Accrued interest payable on deposits (included in accrued expenses and other liabilities) was \$275 and \$295 at September 30, 2009 and 2008, respectively.

(8) Federal Home Loan Bank Borrowings

Federal Home Loan Bank (FHLB) borrowings at September 30 are summarized as follows:

	2009	2008
2.4% to 6.76% Callable Advances, interest payable monthly	\$ 2,000	2,000
5.46% Fixed Advances, principal and interest payable monthly	746	758
3.07% Fixed Advances, principal and interest payable monthly	-	3,000
2.40% Fixed Advances, principal and interest payable monthly	-	6,550
3.95% Fixed Advances, principal and interest payable monthly	-	26
	<u>2,746</u>	<u>12,334</u>
	<u>\$ 2,746</u>	<u>\$ 12,334</u>

Contractual principal payments on advances from Federal Home Loan Bank subsequent to September 30, 2009, are as follows:

Year ending September 30	Amount
2010	\$ 2,013
2011	14
2012	15
2013	16
2014	17
Thereafter	671
	<u>2,746</u>
	<u>\$ 2,746</u>

The callable advances are exercisable after a predetermined time and quarterly thereafter. At September 30, 2009, the callable advances are callable December 2009.

The weighted average interest rate on these advances was 5.96% and 3.36% at September 30, 2009 and 2008, respectively.

The advances are secured by pledges of FHLB demand accounts, FHLB stock, securities and a blanket assignment of unpledged, qualifying mortgage loans. At September 30, 2009, the total additional amount available to BFSB for advances, subject to collateral availability, was \$42,425.

(9) Comprehensive Income

A summary of the reclassification amounts and related tax effects for comprehensive income follows:

	Year Ended September 30,	
	2009	2008
Disclosure of reclassification amount:		
Unrealized and realized holding gains or losses arising during the period, net of income tax expense of \$(85) and \$84 in 2009 and 2008, respectively	\$ (166)	166
	<hr/>	<hr/>
Net change in unrealized gain on securities available-for-sale	\$ <u>(166)</u>	<u>166</u>

(10) Income Taxes

Federal income tax expense for the years ended September 30 is summarized as follows:

	2009	2008
Current federal tax expense	\$ 255	88
Deferred federal tax expense	(27)	16
	<hr/>	<hr/>
	\$ <u>228</u>	<u>104</u>

Income tax (benefit) expense for the years ended September 30 differs from "expected" income tax expense (computed by applying the federal corporate income tax rate of 34% to income before income taxes) as follows:

	2009	2008
Computed "expected" tax expense	\$ 220	122
Increase (decrease) resulting from:		
Tax-exempt interest	(15)	(18)
Dividends exclusion	(7)	(13)
Mark-to-market adjustment on ESOP shares committed to be released	-	15
Other	30	(2)
	<hr/>	<hr/>
	\$ <u>228</u>	<u>104</u>

Temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities at September 30 are as follows:

	<u>2009</u>	<u>2008</u>
Deferred Tax Assets		
Allowance for loan losses	\$ 310	271
EDP/EPO Reserve	10	–
Unrealized loss on securities available-for-sale, net	3	88
Gross deferred tax assets	<u>323</u>	<u>359</u>
Deferred Tax Liabilities		
FHLB stock dividends	\$ (288)	(288)
Depreciation	(257)	(234)
Goodwill and other intangible assets	(17)	(13)
Employee benefits	–	–
Prepaid deposit insurance premium	(31)	(13)
Gross deferred tax liabilities	<u>(593)</u>	<u>(548)</u>
Net deferred tax liability	<u>\$ (270)</u>	<u>(189)</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the existence of, or generation of, taxable income in the periods for which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carry-back years, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and estimates of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

Retained earnings at September 30, 2009, includes approximately \$398 which is essentially income offset by percentage of income bad debt deductions for income tax purposes prior to 1988 (the “Base Year Reserve”). This amount is treated as a permanent difference and deferred taxes of approximately \$135 are not recognized unless it appears that the amount will be reduced and thereby result in taxable income in the foreseeable future. Under current tax regulations, management does not foresee any changes in its business or operations, which would result in a recapture of the Base Year Reserve into taxable income.

(11) Employee Benefit Plans

401k Retirement Plan. Effective January 1, 2009, the Company’s Board of Directors approved the Buffalo Federal Savings Bank 401k Plan. This is a contributory defined contribution retirement plan for all eligible employees. The retirement plan provides for a 100% employer matching contribution for the first 3% of salary deferrals and 50% employer matching contribution for the next 2% of salary deferrals. Contributions to the retirement plan made by BFSB during the years ended September 30, 2009 and 2008 were \$65 and \$0 respectively.

Employee Stock Ownership Plan (ESOP). Effective January 1, 1996, the Company’s Board of Directors approved the adoption of an ESOP covering substantially all employees. The ESOP purchased 64,000 shares of the Holding Company's common stock for \$10 per share in connection with the conversion to

stock ownership. The ESOP borrowed \$640 from the Holding Company to fund the purchase, evidenced by a note receivable recorded by the Holding Company and secured by the common stock purchased by the ESOP. The terms of the note require quarterly principal payments of approximately \$11, bearing interest at prime (8.25% at September 30, 2008), and was paid off September 30, 2008. For financial reporting purposes, the unearned ESOP compensation is classified as a reduction of consolidated stockholders' equity and amounts paid to the Holding Company for interest have been eliminated in consolidation.

BFSB records compensation expense equal to the fair value of shares at the date such shares are committed to be released. Shares are committed to be released on a straight-line basis over the term of the note receivable recorded by the Holding Company and allocated to the participant at that time. The ESOP plan was paid off September 30, 2008 and therefore no activity occurred for the year ended September 30, 2009. For the year ended September 30, 2008, ESOP principal and interest payments of approximately \$121 were funded by Bank contributions of approximately \$103 to the ESOP. The remainder of the ESOP payments was funded by dividends on both allocated and unallocated ESOP shares. During the year ended September 30, 2008, 11,429 shares were committed to be released to participant accounts and BFSB recognized compensation expense relating to the ESOP of \$161.

As of September 30, 2008, the Company made the final contribution to the ESOP. The Company does not anticipate future contributions to the ESOP.

Management Stock Bonus Plan (MSBP). On October 2, 1996, the Company's Board of Directors approved the MSBP. The terms of the MSBP provide for the award of up to 42,320 shares of common stock to certain officers and directors. Deferred compensation is recorded at the date of the stock award based on the fair value of the shares granted. Vesting in the grant occurs in five equal, annual installments and the related deferred compensation is expensed over the same period. For financial reporting purposes the unearned deferred compensation balance is classified as a reduction of consolidated stockholders' equity. Officers, directors and employees awarded shares retain voting rights and, if dividends are paid, dividend privileges during the vesting period. During 2009 and 2008, 1,000 and 2,000 shares, respectively were granted to officers. BFSB recognized compensation expense for the MSBP of \$22 and \$21 for the years ended September 30, 2009 and 2008, respectively. At September 30, 2009 and 2008, there were 4,250 and 5,100, respectively, of awarded but unvested shares. At September 30, 2009, there were 4,034 shares available for future awards.

Stock Option Plan. On October 2, 1996, the Company's Board of Directors approved the Stock Option Plan ("Stock Option Plan"). The terms of the Stock Option Plan provide for the granting of up to 105,800 shares of common stock to certain officers and directors. The Stock Option Plan provides for the granting of both incentive and non-incentive stock options. The terms of the options may not exceed 10 years from the date the options are granted. Incentive stock options granted to stockholders with 10% or less of the total combined voting power of all classes of stock of the Company shall be granted at an option price of not less than 100% of the fair market value at the grant date, and the term of the option may not exceed 10 years from the date of grant. Incentive stock options granted to stockholders with more than 10% of the total combined voting power of all classes of stock of the Company shall be granted at an option price of not less than 110% of the fair market value at the grant date, and the term of the option may not exceed 5 years from the date of the grant. Non-incentive stock options shall be granted at an option price of not less than the fair market value at the grant date. At September 30, 2007, the plan expired for future option grants under the Stock Option Plan.

Changes in shares issuable under options granted for the years ended September 30, 2009 and 2008, are summarized as follows:

	<u>Options outstanding</u>		<u>Options exercisable</u>	
	<u>Number of Shares</u>	<u>Weighted average exercise price</u>	<u>Number of Shares</u>	<u>Weighted average exercise price</u>
Balance September 30, 2007	18,145	\$ 15.43	11,345	\$ 14.91
Exercised	(7,645)	\$ 14.02	(7,645)	\$ 14.02
Canceled	–	–	–	–
Became exercisable	–	–	2,100	\$ 16.46
Balance September 30, 2008	10,500	\$ 16.46	5,800	\$ 16.65
Exercised	–	–	–	–
Canceled	(1,000)	–	(400)	–
Became exercisable	–	–	1,900	\$ 16.46
Balance September 30, 2009	<u>9,500</u>	\$ 16.69	<u>7,300</u>	\$ 16.78

The stock options outstanding at September 30, 2009, consist of the following:

	<u>Outstanding</u>			<u>Exercisable</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
	4,000	17.05	5.81 years	3,200	17.05
	4,000	17.20	6.00 years	3,200	17.20
	1,500	14.35	6.05 years	900	14.35
	<u>9,500</u>			<u>7,300</u>	

Severance Agreements. BFSB has six severance agreements with its executive officers. Such agreements have a term of three years and provide for payments equal to three times average annual salary for the previous five years, in the event BFSB experiences a change in control. A change in control is defined as (1) a sale of more than 25% of the assets of BFSB or the Holding Company; (2) any merger or recapitalization whereby BFSB or the Holding Company is not the surviving entity; (3) a change in control as determined by the OTS; or (4) acquisition directly or indirectly of 25% or more of the voting stock of BFSB or the Holding Company by an individual, entity or group.

(12) Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Number of shares on which basic earnings per share is calculated:		
Average outstanding common shares during the fiscal year	675,349	662,552
Add: Incremental shares under stock option plans	389	3,049
Incremental shares related to MSBP	<u>1,035</u>	<u>1,887</u>
Number of shares on which diluted earnings per share is calculated	<u>676,773</u>	<u>667,488</u>
Net income applicable to common stockholders	\$ <u>337</u>	<u>255</u>
Basic earnings per share	\$ <u>0.50</u>	<u>0.38</u>
Diluted earnings per share	\$ <u>0.50</u>	<u>0.37</u>

(13) Regulatory Capital

The Company is subject to various regulatory capital requirements administered by its primary federal regulator, the Office of Thrift Supervision (“OTS”). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a material effect of the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, BFSB must meet specific capital guidelines involving quantitative measures of BFSB’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. BFSB’s capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require BFSB to maintain minimum amounts of ratios of Tier 1 (Core) Capital Ratio, Total Risk-Based Capital Ratio, Tier 1 Risk-Based Capital Ratio and Tangible Equity Ratio (as defined in the regulations). Management believes, as of September 30, 2009, that BFSB meets all the capital adequacy requirements to which it is subject.

As of September 30, 2009, the most recent filing with the OTS, BFSB was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as adequately capitalized, BFSB will have to maintain minimum Tier 1 (Core) Capital, Total Risk-Based Capital, Tier 1 Risk-Based Capital, and Tangible Equity Ratios as disclosed in the table below. There are no conditions or events since the most recent filing that management believes have adversely changed BFSB’s prompt corrective action category.

BFSB's actual and required capital amounts and ratios at September 30, 2009 and 2008, are as follows:

	Actual		Minimum to be adequately capitalized under prompt corrective actions provision		Minimum to be well capitalized under prompt corrective actions provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2009:						
Tier 1 (Core) Capital Ratio (Tier 1 capital to adjusted total assets)	\$ 12,246	8.10%	6,047	4.00%	12,094	8.00%
Total Risk-Based Capital Ratio (risk-based capital to risk-weighted assets)	13,219	12.27	8,619	8.00	12,929	12.00
Tier 1 Risk-Based Capital Ratio (Tier 1 Capital to risk-weighted assets)	12,246	11.37	4,310	4.00	5,387	5.00
Tangible Equity Ratio (tangible capital to tangible assets)	<u>12,246</u>	<u>8.10</u>	<u>2,268</u>	<u>1.50</u>	<u>2,268</u>	<u>1.50</u>
As of September 30, 2008:						
Tier 1 (Core) Capital Ratio (Tier 1 capital to adjusted total assets)	\$ 9,791	7.42%	5,278	4.00%	7,917	6.00%
Total Risk-Based Capital Ratio (risk-based capital to risk-weighted assets)	10,651	10.07	8,460	8.00	10,575	10.00
Tier 1 Risk-Based Capital Ratio (Tier 1 Capital to risk-weighted assets)	9,791	9.26	4,230	4.00	5,288	5.00
Tangible Equity Ratio (tangible capital to tangible assets)	<u>9,791</u>	<u>7.42</u>	<u>1,979</u>	<u>1.50</u>	<u>1,979</u>	<u>1.50</u>

In accordance with OTS regulations, at the time of conversion from a mutual savings and loan, BFSB restricted a portion of retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible holders who continue to maintain their accounts in BFSB after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of BFSB, and only in such an event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

In addition, savings banks that before and after proposed dividend distributions meet or exceed their fully phased-in capital requirements, may make capital distributions with prior notice to the OTS during any calendar year up to 100% of year-to-date net income plus 50% of the amount in excess of their fully phased-in capital requirements as of the beginning of the calendar year. However, the OTS may impose greater restrictions if an institution is deemed to be in need of more than normal supervision. BFSB exceeds its fully phased-in capital requirements and has been assessed as "well-capitalized" under the regulatory guidelines as of September 30, 2009.

(14) Capital

On February 20, 2009, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company entered into a purchase agreement with the United States Department of the Treasury, pursuant to which the Company sold 3,100 shares of fixed rate cumulative perpetual preferred stock shares series A and 155 shares of fixed rate cumulative perpetual preferred stock shares series B. The series A preferred shares have a stated rate of 5% and the series B preferred shares have a stated rate of 9% for the first five years. After the first five years the stated rate on both the series A and the series B preferred shares will be 9%.

The Company is restricted from the payment of dividends without prior regulatory approval.

(15) Financial Instruments with Off-Balance-Sheet Risk

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 extend credit and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments outstanding at September 30, 2009, whose contract amounts represent credit risk include:

Unfunded loans in process	\$	2,222
Commitments to extend credit at fixed rates		1,141
Commitments to extend credit at adjustable rates		2,061
Unfunded lines and letters of credit		6,261

(16) Commitments

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

(17) Fair Value of Financial Instruments

Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value of information about financial instruments, whether or not recognized in the statement of financial condition. Quoted market prices are used for fair value when available, but do not exist for some of the Company's financial instruments, primarily loans, time deposits and FHLB advances. The fair value of these instruments has been derived from the OTS Net Portfolio Value Model (OTS Model). The OTS Model primarily employs the static discounted cash flow method which estimates the fair value of loans, time deposits and FHLB advances by discounting the cash flows the instruments are expected to generate by the yields currently available to investors on instruments of comparable risk and duration. Therefore, to calculate present value, the OTS Model makes assumptions about the size and timing of expected cash flows and appropriate discount rates. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Disclosures about Fair Value of Financial Instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Financial Assets. Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents and interest-bearing deposits approximates fair value. For all investment and mortgage-backed securities, the fair value is based upon quoted market prices. The fair value of loans receivable was derived from the OTS Model. The fair value of accrued interest receivable approximates book value as the Company expects contractual receipt in the short-term. The fair value of FHLB stock approximates its carrying value.

Financial Liabilities. The fair value of NOW and demand accounts and non-term savings deposits approximates book values as these deposits are payable on demand. The fair value of time deposits and FHLB advances was derived from the OTS Model.

Off-Balance Sheet. No fair value adjustment is necessary for commitments made to extend credit which represents commitments for loan originations. These commitments are at variable rates, or are for loans with terms of less than one year and have interest rates which approximate prevailing market rates.

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding comparable market interest rates, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred tax assets and liabilities, premises and equipment, goodwill and other intangible assets. In addition, the tax effect of the difference between the fair value and carrying value of financial instruments can have a significant effect on fair value estimates and have not been considered in the estimates presented herein.

The approximate book value and fair value of the Company's financial instruments as of September 30 are as follows:

	2009		2008	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Assets:				
Cash and cash equivalents	\$ 13,418	\$ 13,418	\$ 4,263	\$ 4,263
Investment and mortgage-backed securities				
available-for-sale	20,629	20,629	13,242	13,242
Stock in FHLB	1,332	1,332	1,332	1,332
Loans held for sale	6,359	6,359	2,656	2,656
Loans receivable, net	102,661	108,841	103,930	109,017
Accrued interest receivable	760	760	846	846

	2009		2008	
	Book value	Fair value	Book value	Fair value
Liabilities:				
Deposits	\$ 134,991	\$ 137,350	\$ 108,854	\$ 109,995
Advances from FHLB	2,746	2,909	12,334	12,382

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
September 30, 2009				
Investment and mortgage-backed securities available-for-sale	\$ 20,629	\$ 20,454	\$ 175	\$ –
September 30, 2008				
Investment and mortgage-backed securities available-for-sale	\$ 13,242	\$ 13,067	\$ 175	\$ –

(18) Holding Company Information (Condensed)

The summarized financial information for Crazy Woman Creek Bancorp Incorporated is presented below. Intercompany balances and transactions are noted parenthetically.

Condensed Balance Sheets

	September 30,	
	2009	2008
Assets		
Cash (demand account with BFSB \$157 and \$13 respectively)	\$ 707	19
Investment in subsidiary	12,526	9,908
Loan to ESOP	–	–
Investment securities available-for-sale – mutual funds	764	730
Income taxes receivable	206	161
Premises and equipment, net	151	155
Deferred tax benefit	53	54
Other assets	80	136
Total assets	\$ 14,487	11,163

*Condensed Balance Sheets***Liabilities and Stockholders' Equity**

Deferred income taxes	\$	–	–
Dividends payable		77	77
Other borrowed money		159	159
Other liabilities		3	3
Total liabilities		<u>239</u>	<u>239</u>
Stockholders' equity:			
Preferred stock		3,100	–
Common stock		106	106
Additional paid-in capital		10,319	10,312
Unearned ESOP/MSBP shares		(40)	(52)
Retained earnings		7,653	7,624
Accumulated other comprehensive income, net		(4)	(170)
Treasury stock		(6,886)	(6,896)
Total stockholders' equity		<u>14,248</u>	<u>10,924</u>
Total liabilities and stockholders' equity	\$	<u>14,487</u>	<u>11,163</u>

Condensed Statements of Income

		Year Ended September 30,	
		2009	2008
Dividends from BFSB	\$	160	240
Dividends and capital gain distributions on mutual funds		33	57
Interest income (ESOP loan and CD's)		6	6
Gain on sale of securities available-for-sale		–	–
Other income		11	46
Management fee to BFSB		(78)	(78)
Other operating expenses		(81)	(50)
Income before equity in undistributed earnings of subsidiary and income taxes		51	221
Equity in undistributed earnings of subsidiary		<u>324</u>	<u>7</u>
Income before income taxes		375	228
Income tax expense (benefit)		(44)	(25)
Net income	\$	<u>419</u>	<u>253</u>

Condensed Statements of Cash Flows

	Year Ended September 30,	
	2009	2008
Net income	\$ 419	253
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(324)	(7)
Deferred income tax expense	1	3
Depreciation	4	5
Gain on sale of securities available-for-sale	–	–
Mutual fund earnings reinvested	(33)	(54)
Increase in income taxes receivable	(45)	(26)
(Decrease)/Increase in other liabilities	–	1
Decrease/(Increase) in other assets	56	(10)
Net cash provided by operating activities	<u>78</u>	<u>165</u>
Cash flows from investing activities:		
Additional paid in capital invested in BFSB	(2,100)	–
Purchase of premises and equipment	–	(160)
Principal payments received on ESOP note receivable	–	114
Net cash provided by (used in) investing activities	<u>(2,100)</u>	<u>(46)</u>
Cash flows from financing activities:		
Issuance of preferred stock	3,100	–
Advances in other borrowed money	–	159
Acquisition of treasury stock	–	17
Exercise of stock options (no shares issued)	–	(86)
Cash dividends paid	(390)	(307)
Net cash used in financing activities	<u>2,710</u>	<u>(217)</u>
Net increase/(decrease) in cash	688	(98)
Cash at beginning of year	<u>19</u>	<u>117</u>
Cash at end of year	<u>\$ 707</u>	<u>19</u>

Corporate Office
Crazy Woman Creek Bancorp, Incorporated and Buffalo Federal Savings Bank

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Board of Directors of Crazy Woman Creek Bancorp, Incorporated

Richard Reimann
Chairman of the Board

Greg L. Goddard
Secretary

Sandra K. Todd
Treasurer

Douglas D. Osborn

Thomas J. Berry

Deane D. Bjerke

Gary J. Havens

Executive Officers

Gary J. Havens
President and Chief Executive Officer

Paul M. Brunkhorst
Senior Vice President

Carolyn S. Kaiser
Vice President and Chief Financial Officer

Professional Advisors

Corporate Counsel
Kirven and Kirven
104 Fort Street
Buffalo, WY 82834

Transfer Agent and Registrar
Computershare Trust Company, N.A.
250 Royall St.
Canton, MA 02021

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Dooley & Jelly, CPA's
293 South Main Street
Buffalo, WY 82834

Special Counsel
Mailzia Spidi & Fisch, PC
901 New York Avenue, NW
Suite 210 East
Washington, D.C. 20001

Annual Meeting

The Annual Meeting of Stockholders will be held on January 27, 2010, at 3:00 p.m. at the Company's main office located at 106 Fort Street, Buffalo, Wyoming.