

**FIRST BANKERS' BANC SECURITIES, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
First Bankers' Banc Securities, Inc.  
St. Louis, Missouri

We have audited the accompanying statement of financial condition of First Bankers' Banc Securities, Inc. as of December 31, 2010. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of First Bankers' Banc Securities, Inc. as of December 31, 2010 in conformity with U.S. generally accepted accounting principles.

*LarsonAllen LLP*  
**LarsonAllen LLP**

St. Louis, Missouri  
January 28, 2011



**FIRST BANKERS' BANC SECURITIES, INC.**  
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**DECEMBER 31, 2010**

**ASSETS**

Cash and Cash Equivalents	\$	118,610
Deposit with Clearing Organization		100,000
Miscellaneous Receivables		3,006,016
Securities Owned, at Market Value		12,444,264
Fixed Assets, Net		256,257
Goodwill		6,630,768
Employee Advance		93,333
Prepaid and Other Assets		178,216
Total Assets	\$	22,827,464

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Accounts Payable and Accrued Expenses	\$	3,401,011
Income Taxes Payable		23,076
Deferred Tax Liability		77,100
Payable to Clearing Organization		7,405,647
Total Liabilities		10,906,834
Stockholder's Equity		
Common Stock, \$1 Par Value, 1,000 Shares Authorized, Issued and Outstanding		1,000
Additional Paid-In Capital		8,785,160
Retained Earnings		3,134,470
Total Stockholder's Equity		11,920,630
Total Liabilities and Stockholder's Equity	\$	22,827,464

*See accompanying Notes to Financial Statements.*

**FIRST BANKERS' BANC SECURITIES, INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

First Bankers' Banc Securities, Inc. (the Company) is primarily engaged in the business of buying and selling fixed income securities for financial institutions located in the Midwestern United States. The Company is subject to competition from other broker-dealers. The Company is a member of FINRA and operates under the exemptive provisions of Rule 15c3-3(k)(1) under the Securities and Exchange Act of 1934.

The Company is a wholly-owned subsidiary of Bankers' Banc Investment Services, LLC.

**Use of Estimates**

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Miscellaneous Receivables**

Miscellaneous receivables are stated at the amounts billed to clients and are ordinarily due when invoiced. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the client.

**Goodwill**

Goodwill is not amortized since it has an indefinite life. Instead, it is tested annually for impairment. The Company has evaluated its existing goodwill that was acquired in the business acquisition and has tested that asset for impairment. As of December 31, 2010, goodwill was increased by \$1,089,010 which reflects the earn-out purchase price per the terms and conditions of the stock purchase agreement between the shareholders of First St. Louis Capital Markets Inc. and Bankers' Banc Investment Services, LLC dated November 16, 2006. The earn-out payment is made by Bankers' Banc Investment Services, LLC with a corresponding increase to additional paid-in capital of First Bankers' Banc Securities, Inc.

**Securities Transactions**

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. In certain cases, a broker-dealer or client will fail to deliver securities to the Company and, as a result, the Company will fail to deliver securities to the counterparty to the transaction. The Company promptly forwards securities upon receipt and will settle cash when the security is delivered.

**FIRST BANKERS' BANC SECURITIES, INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Securities Transactions (Continued)**

The Company promptly forwards all funds and securities received and does not otherwise hold funds or securities for, or owe money or securities to, clients.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. The resulting difference between cost and market is included in other income.

**Fair Value Measurements**

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The Company has also applied the above measurement principles for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis.

**FIRST BANKERS' BANC SECURITIES, INC.**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

The valuation methods used for financial assets and liabilities recorded at fair value are as follows:

*Trading Securities:* Trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include private collateralized mortgage obligations, municipal bonds and corporate debt securities. The Company does not have any securities that are valued with Level 3 inputs.

**Fixed Assets**

Fixed assets are recorded at cost and are depreciated on the straight-line method. Depreciation is provided over the estimated useful lives of the respective assets.

**Income Taxes**

Income taxes are provided for the tax effects of the transactions reported in the financial statement and consist of taxes currently due plus deferred taxes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company is included in the consolidated federal and state income tax returns of Bankers' Banc Investment Services, LLC and it is not subject to federal or state income tax examinations for taxable years prior to 2006. Federal and state income taxes are calculated as if the Company filed on a separate basis.

The Company adopted the provision of the accounting standards for uncertainty in income taxes. These new rules establish a higher standard for tax benefits to meet before they can be recognized in a company's financial statements.

**FIRST BANKERS' BANC SECURITIES, INC.  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on an audit based on the technical merit of the position. The change in accounting did not have a material impact on the Company's financial statements.

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 28, 2011, the date the financial statements were available to be issued.

**NOTE 2 DEPOSIT WITH CLEARING ORGANIZATION**

The Company has an agreement with a national broker-dealer to clear customer transactions on a fully disclosed basis. This agreement requires a \$100,000 deposit which is maintained in cash with the broker-dealer.

**NOTE 3 SECURITIES OWNED AND SOLD, NOT YET PURCHASED, AT MARKET VALUE**

Marketable securities owned and sold, not yet purchased, consist primarily of fixed income securities at market value, as follows:

	Owned
State and Municipal Obligations	\$ 12,398,885
Certificates of Deposit	45,379
	\$ 12,444,264

**NOTE 4 FIXED ASSETS**

Fixed assets consist of the following at December 31, 2010:

Building Improvements	\$ 87,948
Furniture and Fixtures	102,564
Computer Equipment and Software	230,766
Fixed Assets, at Cost	421,278
Less - Accumulated Depreciation	(165,021)
Fixed Assets, Net	\$ 256,257

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**NOTE 5 PAYABLE TO CLEARING ORGANIZATION**

The Company clears proprietary and customer transactions through another broker-dealer on a fully disclosed basis. The amount payable to the clearing broker represents short-term borrowings at fluctuating rates, principally 50 basis points over the clearing broker's cost of funds rate at December 31, 2010 and is collateralized by securities owned by the Company. Amount payable to the clearing organization at December 31, 2010 was \$7,405,647.

**NOTE 6 INCOME TAXES**

The deferred tax liability in the accompanying balance sheet is predominately related to the book to tax difference in depreciation totaling \$77,100.

**NOTE 7 LINE OF CREDIT**

The Company has a \$600,000 line of credit with a bank and has a balance of \$0 at December 31, 2010. The line of credit has interest at prime, payable monthly, and matures on February 1, 2012.

**NOTE 8 EMPLOYEE BENEFITS**

The Company has a qualified, contributory profit sharing plan covering full-time employees which qualifies under section 401(k) of the Internal Revenue Code. The plan provides for discretionary contributions by the Company in such amounts as the Board of Directors may annually determine.

**NOTE 9 NET CAPITAL REQUIREMENTS**

The Company is required to maintain minimum net capital as defined by Rule 15c3-1 under the Securities Exchange Act of 1934. Rule 15c3-1 requires minimum net capital to be greater of \$100,000 or 6 2/3% (\$233,413 at December 31, 2010) of aggregate indebtedness. As of December 31, 2010, the Company had net capital, as defined, of \$4,162,921, which exceeded the minimum requirements of \$233,413. Also, as defined by Rule 15c3-1, the ratio of aggregate indebtedness to net capital for the Company may not exceed 15 to 1. As of December 31, 2010, the ratio of aggregate indebtedness to net capital for the Company was .84 to 1.

**NOTE 10 OFF-BALANCE-SHEET AND CREDIT RISK**

In the normal course of business, the Company's actions involve the execution and settlement of securities transactions. Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of settlement. The Company has control procedures regarding securities transactions with counterparties and the manner in which they are settled. The settlement of open transactions as of December 31, 2010 is not expected to have a material adverse effect on the financial statements of the Company.

**FIRST BANKERS' BANC SECURITIES, INC.  
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**NOTE 10 OFF-BALANCE-SHEET AND CREDIT RISK (CONTINUED)**

As a securities dealer, the Company is engaged in various securities trading activities. Exposure of the Company to credit risk associated with the non-performance of the counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair a counterparty's ability to satisfy its obligations to the Company.

**NOTE 11 FAIR VALUE MEASUREMENTS**

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 1 – Summary of Significant Accounting Policies to the Financial Statements. The following table presents the balances of the financial assets measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
State and Municipal Obligations	\$ -	\$ 12,398,885	\$ -	\$ 12,398,885

**NOTE 12 OPERATING LEASES**

The Company has entered into operating leases for office space in St. Louis, Missouri through September 2017 and Overland Park, Kansas through September 2012. As of December 31, 2010, the future minimum rental payments are as follows:

2011	\$ 159,765
2012	152,602
2013	128,869
2014	128,869
2015	128,869
Thereafter	225,521
Total	\$ 924,495