

BEO Bancorp and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2005 and 2004

The Federal Deposit Insurance Corporation
has not reviewed the financial data and
related data in this statement for accuracy
or relevance.

ZIRKLE, LONG, TRIGUEIRO & WARD, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON

BEO Bancorp and Subsidiary

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Message to Our Stockholders

It is a pleasure to share your Company's 2005 results. BEO Bancorp and its subsidiary, Bank of Eastern Oregon, had a successful and profitable year in 2005. Net income of \$959,795 increased 3.6% increase over the \$926,128 earned in 2004. Net income per share increased to \$2.18 per share from \$2.11 per share in 2004. Return on average assets and average equity at .56% and 12.12%, respectively, were consistent with the levels achieved in 2004.

Total assets reached a new high of \$174,991,145, an 8% increase over the 2004 total of \$162,154,261. Loans grew 22.4% to end the year at \$108,361,675. Deposits increased 10.1% to reach \$155,949,196. Our growth has occurred throughout our existing markets as well as those new markets we now operate in as a result of the 2004 Klamath branch acquisitions. This growth has been achieved and managed by hard working and competent lending, operations and administrative personnel. We consider this growth to be of high quality and sustainable.

The staff of Bank of Eastern Oregon and BEO Bancorp worked diligently to improve operations and become more efficient as shown by significant reductions in a variety of expense categories. The Bank's efficiency ratio improved for the second consecutive year. A 3,500 square foot addition to the Administrative and Operations building in Heppner was completed in early 2006 and will provide office space to aid in the staff's continued goal of operational improvement and efficiency and overall profitability of the Company.

Included with this annual report, you will find proxy information for our annual stockholders' meeting. This year it will be held on March 29, 2006 at the American Legion Hall in Ione, Oregon at 7pm. I look forward to meeting with you as we review these audited financial statements and conduct the other business of the corporation.

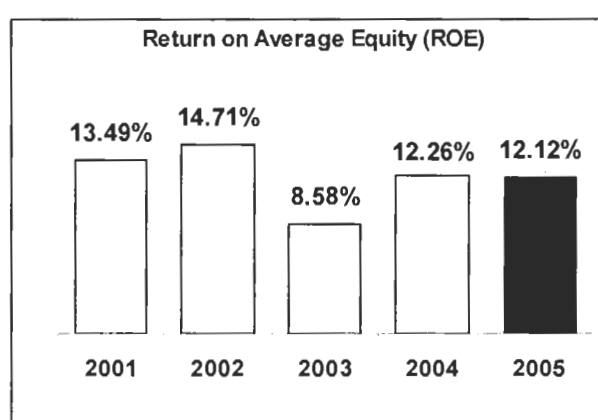
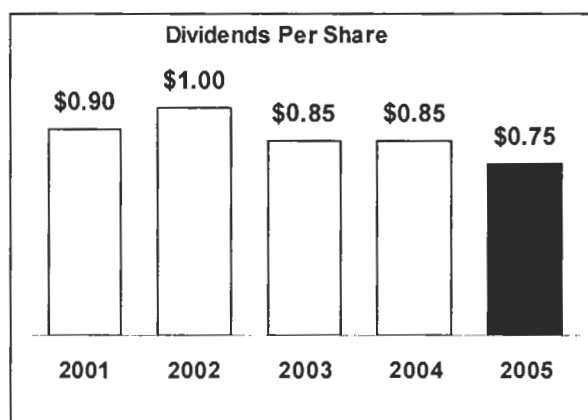
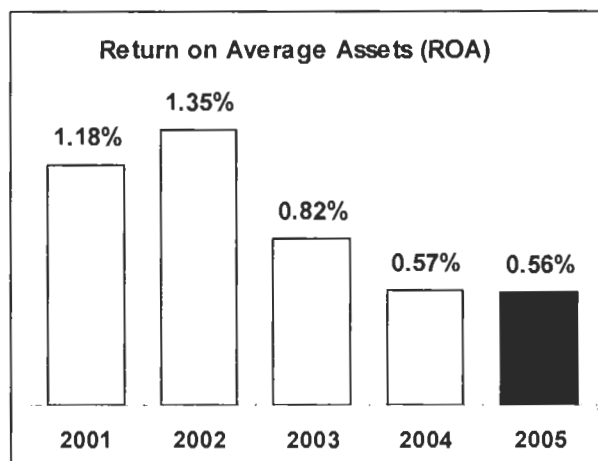
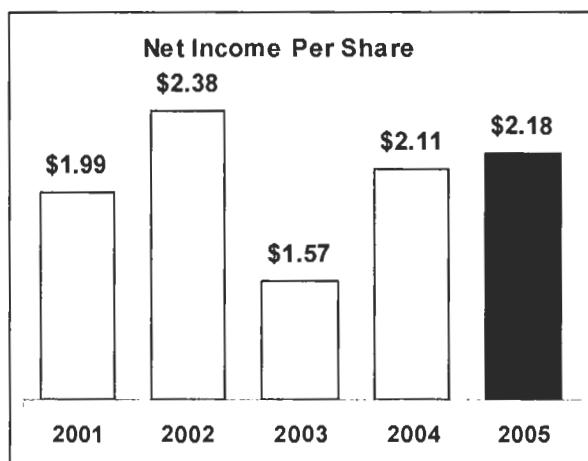
Sincerely,

E. George Koffler
President
BEO Bancorp

FINANCIAL HIGHLIGHTS

2001-2005

	2001	2002	2003	2004	2005
Return on Average Assets	1.18%	1.35%	0.82%	0.57%	0.56%
Return on Average Equity	13.49%	14.71%	8.58%	12.26%	12.12%
Net Income	\$ 871,853	\$ 1,043,678	\$ 688,724	\$ 926,128	\$ 959,795
Net Income Per Share	\$ 1.99	\$ 2.38	\$ 1.57	\$ 2.11	\$ 2.18
Total Equity	\$ 6,421,449	\$ 7,298,404	\$ 7,699,474	\$ 7,931,180	\$ 8,016,290
Total Assets	\$ 76,377,381	\$ 77,955,673	\$ 150,875,392	\$ 162,154,261	\$ 174,991,145



BEO Bancorp and Subsidiary

December 31, 2005

Officers

E. George Koffler
President and Chief Executive Officer

Linda K. LaRue
*Executive Vice President
and Chief Operations Officer*

Jeff Bailey
Vice President and Chief Credit Officer

Melissa Lindsay
*Vice President
and Mortgage Loan Officer/Manager*

Harley Sager
Vice President and Loan Officer

Richard Wood
Vice President and Loan Officer

Jim Gardner
Vice President and Loan Officer

Bill Hubble
Vice President and Loan Officer

Kevin McCabe
Vice President and IS Manager

Anda Kay Zastrow
*Assistant Vice President
and BEO Financial Services Manager*

Mardean Patton
*Assistant Vice President,
Irrigon Branch Manager, and Loan Officer*

Sherry Walters
*Assistant Vice President
and Arlington Branch Manager*

Tricia Gunderson
*Assistant Vice President
and Human Resources Manager*

Janet Dezellem
Assistant Vice President and Finance Officer

John Qualls
Loan Officer

Jill Peck
Loan Officer

Robert Quinton
Loan Officer

Ed Rollins
Loan Officer

Rhonda Shaffer
Loan Officer

John Hays
Loan Officer

Joyce Moser
Burns Branch Manager and Loan Officer

Karen Cossitt
Fossil Branch Manager and Loan Officer

Jennifer Miller
Moro Branch Manager and Loan Officer

Sharon Harrison
Heppner Branch Manager and Loan Officer

Kathy Burres
Condon Branch Manager

Julie Gisi
Boardman Branch Manager

Sharon Rietmann
Ione Branch Manager

Janice Provencher
John Day Branch Manager

Andrea Moles
Prairie City Branch Manager

ZIRKLE, LONG, TRIGUEIRO & WARD, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON

Report of Independent Auditors

The Board of Directors
BEO Bancorp:

We have audited the accompanying balance sheets of BEO Bancorp and Subsidiary (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of BEO Bancorp and Subsidiary as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Zirkle, Long, Trigueiro & Ward, L.L.C.

Eugene, Oregon
February 10, 2006

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

ASSETS	December 31	
	2005	2004
Cash and cash equivalents:		
Cash and due from banks	\$ 7,674,615	\$ 4,653,458
Interest-bearing deposits in Federal Home Loan Bank	12,738	6,946
Total cash and cash equivalents	7,687,353	4,660,404
Investment securities available-for-sale	47,847,194	58,521,856
Loans, less allowance for loan losses	108,361,675	88,528,093
Interest receivable	1,456,370	1,338,393
Federal Home Loan Bank stock	559,700	557,500
Property, less accumulated depreciation	5,023,176	4,752,347
Core deposit intangible, less accumulated amortization	1,504,527	1,785,490
Other assets	2,551,150	2,010,178
	167,303,792	157,493,857
Total assets	\$ 174,991,145	\$ 162,154,261
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 26,587,699	\$ 21,624,602
Savings and interest-bearing demand	86,101,399	73,658,078
Time, \$100,000 and over	12,985,689	15,128,331
Other time	30,274,409	31,176,373
	155,949,196	141,587,384
Overnight borrowings	2,690,771	7,484,669
Junior subordinated debentures	7,217,000	4,124,000
Accrued interest payable	255,320	165,136
Other liabilities	862,568	861,892
Total liabilities	166,974,855	154,223,081
Stockholders' equity:		
Common stock, \$5 par value; 500,000 shares authorized, 440,329 shares outstanding (439,874 shares in 2004)	2,201,645	2,199,370
Additional paid-in capital	1,486,546	1,471,495
Retained earnings	4,904,772	4,275,224
Accumulated other comprehensive income (loss)	(576,673)	(14,909)
Total stockholders' equity	8,016,290	7,931,180
Total liabilities and stockholders' equity	\$ 174,991,145	\$ 162,154,261

The accompanying notes are an integral part of these consolidated financial statements.

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2005	2004
Interest income:		
Interest and fees on loans	\$ 7,767,209	\$ 5,527,472
Interest on investment securities:		
Taxable	1,475,701	1,869,729
Nontaxable	489,261	530,581
Interest on federal funds sold and short-term time deposits	94,437	75,859
	9,826,608	8,003,641
Interest expense	3,131,252	2,055,749
Net interest income	6,695,356	5,947,892
Provision for loan losses	940,000	240,000
Net interest income after provision for loan losses	5,755,356	5,707,892
Noninterest income:		
Service charges	1,288,903	1,320,167
Mortgage banking income	374,726	327,050
Gains on sales of investment securities, net	-	6,277
Other, principally financial services income	203,341	191,260
	1,866,970	1,844,754
Noninterest expense:		
Salaries and employee benefits	3,691,879	3,423,311
Occupancy expense	454,380	440,148
Equipment expense	645,543	665,905
Losses on sale of property	5,854	78,805
Asset impairment charge	5,500	60,994
Other	1,792,375	1,876,355
	6,595,531	6,545,518
Income before income taxes	1,026,795	1,007,128
Provision for income taxes	67,000	81,000
Net income	\$ 959,795	\$ 926,128
Earnings per share	\$ 2.18	\$ 2.11

The accompanying notes are an integral part of these consolidated financial statements.

BEO Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2005 and 2004

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance, January 1, 2004	\$ 2,195,725	\$ 1,444,157	\$ 3,722,989	\$ 336,603	\$ 7,699,474
Net income			926,128		926,128
Other comprehensive income (loss):					
Unrealized losses on investment securities				(561,616)	
Reclassification of net gains realized				(6,277)	
Deferred income taxes				216,381	
Total other				<u>(351,512)</u>	<u>(351,512)</u>
Comprehensive income					<u>574,616</u>
Issuance of 729 shares of common stock	3,645	27,338			30,983
Cash dividends (\$.85 per share)			<u>(373,893)</u>		<u>(373,893)</u>
Balance, December 31, 2004	2,199,370	1,471,495	4,275,224	<u>(14,909)</u>	7,931,180
Net income			959,795		959,795
Other comprehensive income (loss):					
Unrealized losses on investment securities				(823,219)	
Deferred income taxes				261,455	
Total other				<u>(561,764)</u>	<u>(561,764)</u>
Comprehensive income					<u>398,031</u>
Issuance of 455 shares of common stock	2,275	15,051			17,326
Cash dividends (\$.75 per share)			<u>(330,247)</u>		<u>(330,247)</u>
Balance, December 31, 2005	<u>\$ 2,201,645</u>	<u>\$ 1,486,546</u>	<u>\$ 4,904,772</u>	<u>\$ (576,673)</u>	<u>\$ 8,016,290</u>

The accompanying notes are an integral part of these consolidated financial statements.

BEO Bancorp and Subsidiary
Consolidated Statements of Cash Flows

	Year Ended December 31	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 959,795	\$ 926,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	432,803	468,141
Losses on sales of property	5,854	78,805
Asset impairment charge	5,500	60,994
Gains on sales of investment securities, net	-	(6,277)
Amortization of investment premiums, net	328,030	436,725
Amortization, other	350,594	336,029
Provision for loan losses	940,000	240,000
Losses on foreclosed assets	4,538	-
Increase in cash value of life insurance	(33,736)	(34,121)
Deferred income taxes	(55,000)	(246,000)
Federal Home Loan Bank stock dividends	(2,200)	(9,800)
Change in:		
Interest receivable and other assets	(150,519)	(668,036)
Deferred loan fees	21,790	117,600
Accrued interest and other liabilities	161,722	245,939
Income taxes payable	(62,893)	151,600
Net cash provided by operating activities	2,906,278	2,097,727
Cash flows from investing activities:		
Proceeds from sales of investment securities	-	5,555,030
Proceeds from maturities of investment securities	11,196,424	18,657,319
Purchase of investment securities	(1,673,011)	(49,915,810)
Purchase of loans	(61,219)	(3,360,000)
Proceeds from sales of loans	518,519	2,515,000
Proceeds from sales of property	3,385	351,600
Proceeds from sale of foreclosed assets	93,462	-
Loans originated, net of principal collected	(21,350,672)	(31,985,918)
Purchase of property	(712,871)	(821,735)
Purchase of State of Oregon income tax credits	(148,339)	-
Net cash used in investing activities	(12,134,322)	(59,004,514)
Cash flows from financing activities:		
Repurchase agreements and federal funds purchased	(4,793,898)	7,484,669
Net increase in deposits	14,361,812	3,121,693
Net proceeds from issuance of trust preferred securities	3,000,000	-
Issuance of common stock	17,326	30,983
Dividends paid	(330,247)	(373,893)
Net cash provided by financing activities	12,254,993	10,263,452
Net increase (decrease) in cash and cash equivalents	3,026,949	(46,643,335)
Cash and cash equivalents, beginning of year	4,660,404	51,303,739
Cash and cash equivalents, end of year	\$ 7,687,353	\$ 4,660,404

BEO Bancorp and Subsidiary
Consolidated Statements of Cash Flows, Continued

	Year Ended December 31	
	2005	2004
Supplemental information:		
Cash paid during the year for:		
Income taxes	\$ 139,000	\$ 175,400
Interest	3,041,068	2,020,431
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	(561,764)	(351,512)
Transfer of loans to foreclosed assets	98,000	-
Transfer of property to other real estate	-	110,000

The accompanying notes are an integral part of these consolidated financial statements.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Principles of Consolidation – The consolidated financial statements include the accounts of BEO Bancorp (“Bancorp”), a bank holding company, and its subsidiary, Bank of Eastern Oregon (the “Bank”). The Bank provides commercial and consumer financing, banking and mortgage lending and other services in Northeastern Oregon. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption “cash and due from banks”. Such amounts include federal funds sold on a short-term basis.

Investment Securities – The Bank classifies all investment securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Unrealized gains and losses are excluded from earnings and are credited or charged to other comprehensive income in stockholders’ equity, net of applicable deferred taxes.

Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized on the specific identification method.

Loans Held-for-Sale – There were no loans held-for-sale at December 31, 2005 or 2004.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

1. **Summary of Significant Accounting Policies, Continued:**

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the interest is doubtful. Loan origination fees, net of associated direct costs, if significant, are amortized by the straight-line method over the contractual life of the loan.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans and prior loss experience. The evaluations take into consideration such factors as changes in the nature and value of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the present value of expected cash flows discounted at the loan's effective interest rate, the observable market price of the loan or the estimated fair value of the loan's collateral or related guaranty. Loans deemed impaired are specifically allocated for in the allowance for loan losses.

Federal Home Loan Bank Stock – The investment in Federal Home Loan Bank ("FHLB") stock is carried at par value, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets or FHLB advances. At December 31, 2005, the minimum required investment was \$302,000. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

1. **Summary of Significant Accounting Policies, Continued:**

Property – Property is stated at cost, net of accumulated depreciation. Additions, betterments and replacements of major units are capitalized. Expenditures for normal maintenance, repairs and replacements of minor units are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in operations currently.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Core Deposit Intangible – Core deposit intangible is stated at cost, net of accumulated amortization. Amortization is recorded on an accelerated basis over 10 years, with periodic evaluation for impairment.

Impairment of Long-Lived Assets Held-for-Sale – Long-lived assets classified as held-for-sale (Note 7) are stated at the lower of carrying amount or fair value less costs to sell. Fair value is determined by current appraised value. An impairment loss is recognized when the carrying value exceeds fair value.

Foreclosed Assets – Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Advertising – Advertising costs are generally charged to expense during the year in which they are incurred.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated on differences between financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

1. **Summary of Significant Accounting Policies, Continued:**

Recently Issued Accounting Pronouncements – In December 2003, the Financial Accounting Standards Board (“FASB”) issued revised FASB Interpretation No. 46 (“FIN 46(R)”), *Consolidation of Variable Interest Entities*, that addresses the consolidation rules to be applied to “variable interest entities”. The recognition and measurement provisions of FIN 46(R) were adopted for Trust subsidiaries, BEO Statutory Trust I and BEO Statutory Trust II, during 2005. In accordance with FIN 46(R), these Trusts, which were established for the issuance of Trust Preferred Securities, have not been consolidated but are considered related parties. The adoption of FIN 46(R) in 2005 did not have a material effect on the Company’s financial condition or results of operations.

Reclassifications – Certain 2004 amounts have been reclassified where appropriate to conform with the financial statements presentation used in 2005. These reclassifications had no effect on previously reported net income.

Earnings Per Share – Earnings per share are computed on the basis of the weighted average number of shares outstanding during each year.

2. **Cash and Due From Banks:**

The Bank is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The required reserve balances at December 31, 2005 and 2004 were approximately \$2,752,000 and \$1,116,000, respectively, and were met by holding cash and maintaining an average balance with the Federal Reserve Bank.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

3. Investment Securities Available-for-Sale:

The amortized cost and estimated fair values of investment securities available-for-sale at December 31, 2005 and 2004 are as follows:

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligation of U.S. Government agencies	\$ 9,975,693	\$ 6,841	\$ (116,230)	\$ 9,866,304
Mortgage-backed securities	26,230,918	681	(868,181)	25,363,418
Obligations of states and political subdivisions	<u>12,485,651</u>	<u>190,111</u>	<u>(58,290)</u>	<u>12,617,472</u>
	<u>\$ 48,692,262</u>	<u>\$ 197,633</u>	<u>\$ (1,042,701)</u>	<u>\$ 47,847,194</u>
	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligation of U.S. Government agencies	\$ 12,481,918	\$ 11,872	\$ (50,420)	\$ 12,443,370
Mortgage-backed securities	33,946,960	2,147	(374,228)	33,574,879
Obligations of states and political subdivisions	<u>12,114,827</u>	<u>402,440</u>	<u>(13,660)</u>	<u>12,503,607</u>
	<u>\$ 58,543,705</u>	<u>\$ 416,459</u>	<u>\$ (438,308)</u>	<u>\$ 58,521,856</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

3. Investment Securities Available-for-Sale, Continued:

Investment securities that were in unrealized loss positions as of December 31, 2005 and 2004 are presented in the following tables, based on the length of time that individual securities were in unrealized loss positions. In the opinion of management, these securities are considered only temporarily impaired due to interest rate differentials as compared to current market conditions:

	Securities in Unrealized Loss Positions as of December 31, 2005					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligation of U.S.						
Government agencies	\$ 975,625	\$ 13,296	\$ 7,394,430	\$ 102,934	\$ 8,370,055	\$ 116,230
Mortgage-backed securities	-	-	25,319,303	868,181	25,319,303	868,181
Obligations of states and political subdivisions	1,858,148	18,007	2,641,952	40,283	4,500,100	58,290
Total	<u>\$ 2,833,773</u>	<u>\$ 31,303</u>	<u>\$ 35,355,685</u>	<u>\$ 1,011,398</u>	<u>\$ 38,189,458</u>	<u>\$ 1,042,701</u>

	Securities in Unrealized Loss Positions as of December 31, 2004					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligation of U.S.						
Government agencies	\$ 9,443,682	\$ 50,420	\$ -	\$ -	\$ 9,443,682	\$ 50,420
Mortgage-backed securities	33,120,885	366,696	382,473	7,532	33,503,358	374,228
Obligations of states and political subdivisions	2,676,406	13,660	-	-	2,676,406	13,660
Total	<u>\$ 45,240,973</u>	<u>\$ 430,776</u>	<u>\$ 382,473</u>	<u>\$ 7,532</u>	<u>\$ 45,623,446</u>	<u>\$ 438,308</u>

The unrealized losses on obligations of U.S. Government agencies and political subdivisions were caused by interest rate increases subsequent to the purchase of the securities.

Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase on obligations of political subdivisions in an unrealized loss position as of December 31, 2005. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

3. Investment Securities Available-for-Sale, Continued:

The unrealized losses on mortgage-backed securities were caused by interest rate increases subsequent to the purchase of the securities. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2005 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 7,890,383	\$ 7,811,145
Due after one year through five years	6,639,277	6,677,870
Due after five years	7,931,684	7,994,761
Mortgage-backed securities	<u>26,230,918</u>	<u>25,363,418</u>
	<u>\$ 48,692,262</u>	<u>\$ 47,847,194</u>

No investment securities were sold in 2005. Gross realized gains and losses on 2004 sales of investment securities totaled \$50,738 and \$44,461, respectively.

At December 31, 2005, investment securities with amortized costs of \$24,169,366 and estimated fair values of \$24,037,940 were pledged for public deposits, repurchase agreements and Federal Home Loan Bank borrowings (\$26,017,408 and \$26,179,907 in 2004, respectively).

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

4. Loans:

Major classifications of loans at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Commercial and agricultural loans	\$ 43,209,975	\$ 35,306,405
Real estate loans	61,397,009	49,327,053
Consumer loans	<u>5,242,584</u>	<u>5,376,551</u>
	109,849,568	90,010,009
Deferred loan origination fees	<u>(291,627)</u>	<u>(269,837)</u>
	109,557,941	89,740,172
Allowance for loan losses	<u>(1,196,266)</u>	<u>(1,212,079)</u>
	<u>\$ 108,361,675</u>	<u>\$ 88,528,093</u>

The loan portfolio at December 31, 2005 and 2004 includes \$76,363,789 and \$59,393,842, respectively, of loans which have a variable rate of interest. The December 31, 2005 amount includes \$35,817,303 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of such serviced loans was \$5,319,579 and \$9,287,826 at December 31, 2005 and 2004, respectively.

The total loans outstanding on December 31 which were on a nonaccrual basis, contractually past due 90 days or more as to interest or principal payments or modified as to the original agreement to terms more favorable than market conditions, are as follows:

	<u>Nonaccrual Loans</u>	<u>Loans Past Due 90 Days or More and Still Accruing</u>	<u>Renegotiated Loans</u>
2005:			
Commercial	\$ 25,000	\$ -	\$ 178,403
Real estate	<u>51,068</u>	<u>-</u>	<u>112,636</u>
	<u>\$ 76,068</u>	<u>\$ -</u>	<u>\$ 291,039</u>
2004:			
Commercial	\$ 986,204	\$ -	\$ 177,161
Real estate	<u>-</u>	<u>-</u>	<u>113,153</u>
	<u>\$ 986,204</u>	<u>\$ -</u>	<u>\$ 290,314</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

4. **Loans, Continued:**

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 1,212,079	\$ 1,008,533
Loans charged off	(960,015)	(67,178)
Provision charged to income	940,000	240,000
Recoveries credited to allowance	4,202	30,724
	<u>\$ 1,196,266</u>	<u>\$ 1,212,079</u>
Balance, end of year		

Restructured and other loans considered impaired, including all nonaccrual loans, totaled \$620,964 and \$986,402 at December 31, 2005 and 2004, respectively. The specific valuation allowance for loan losses related to these impaired loans was \$24,642 and \$493,102 at December 31, 2005 and 2004, respectively. The average recorded investment in impaired loans was approximately \$800,000 and \$996,000 in 2005 and 2004, respectively. Interest income recognized on impaired loans during 2005 totaled \$42,523. No interest income was recognized on impaired loans in 2004. Interest income which would have been realized on nonaccrual loans if they had remained current and still accruing was approximately \$2,900 and \$60,000 in 2005 and 2004, respectively.

Concentration of Credit Risk – The Bank grants agribusiness, commercial, consumer and residential loans to customers throughout Northeastern Oregon. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the region's agribusiness economic sector.

The Bank's agricultural loans totaled \$27,092,094 or 26% at December 31, 2005 of its loan portfolio and \$23,777,230 or 25% at December 31, 2004. Credit losses from agricultural loans does not differ significantly from the Bank's credit loss experience on its loan portfolio as a whole. The Bank's policy for requiring collateral on agricultural loans does not differ substantially from collateral requirements in its other lending.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

5. Property:

Property at December 31 consists of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 573,767	\$ 573,767
Buildings and improvements	4,803,442	4,376,580
Furniture and equipment	<u>2,811,208</u>	<u>2,735,280</u>
	8,188,417	7,685,627
Accumulated depreciation	<u>3,165,241</u>	<u>2,933,280</u>
	<u>\$ 5,023,176</u>	<u>\$ 4,752,347</u>

During 2005 the Bank began expansion of its administrative offices in Heppner. At December 31, 2005 amounts associated with such construction activity totaled \$438,183 and are included in buildings and improvements above. Construction costs and related furniture and equipment are expected to total approximately \$550,000. Construction will be completed in February 2006.

6. Core Deposit Intangible:

Core deposit intangible consists of the following:

	<u>2005</u>	<u>2004</u>
Purchase cost in 2003	\$ 2,109,512	\$ 2,109,512
Accumulated amortization	<u>604,985</u>	<u>324,022</u>
	<u>\$ 1,504,527</u>	<u>\$ 1,785,490</u>

Forecasted amortization for the next five years is as follows:

2006	\$ 254,506
2007	231,142
2008	210,450
2009	192,082
2010	175,740

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

7. Other Assets:

Other assets at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
Cash value of life insurance (Note 13)	\$ 1,019,412	\$ 985,676
Prepaid expenses	240,374	190,832
Capitalized trust preferred securities issuance costs, net of \$48,000 and \$24,000 amortization in 2005 and 2004, respectively	72,000	96,000
Long-lived assets held-for-sale (former branch office), net of \$66,494 and \$60,994 impairment loss in 2005 and 2004, respectively	104,500	110,000
Investment in unconsolidated subsidiaries (Trusts) (Note 10)	217,000	124,000
Purchased Oregon income tax credits, net of \$45,631 amortization	102,708	-
Income tax deposits	14,031	-
Deferred income taxes	781,125	503,670
	<u>\$ 2,551,150</u>	<u>\$ 2,010,178</u>

8. Deposits:

The scheduled maturities of time deposits at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Less than one year	\$ 29,972,612	\$ 36,155,566
One to three years	10,956,787	7,483,514
Over three years	2,330,699	2,665,624
	<u>\$ 43,260,098</u>	<u>\$ 46,304,704</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

9. Borrowings:

Borrowings at December 31, 2005 consist of \$2,690,771 in repurchase agreements (average rate 1.9%). At December 31, 2004, borrowings consisted of \$6,509,669 in repurchase agreements (average rate 2.0%) and \$975,000 in federal funds purchased overnight from correspondent banks (average rate 2.75%).

Investment securities are pledged as collateral in an amount equal to the repurchase agreements.

At December 31, 2005, the Bank has lines of credit available totaling approximately \$14,686,000 from the Federal Home Loan Bank of Seattle and \$10,000,000 of federal funds lines with correspondent banks.

The Federal Home Loan Bank line of credit, when borrowed against, is secured by certain investment securities and real estate loans.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

10. Junior Subordinated Debentures:

As of December 31, 2005, Bancorp had two wholly-owned trusts (“Trusts”) that were formed to issue trust preferred securities and related common securities. The Trusts issued Capital Securities (“Trust Preferred Securities”) and invested the proceeds in a like amount of Junior Subordinated Debentures (“Debentures”) of BEO Bancorp. Interest distributions on the Trust Preferred Securities are payable quarterly and are deferrable, at Bancorp’s option, for up to five years. The Debentures bear the same terms and interest rates as the related Trust Preferred Securities. The Debentures are the sole assets of the Trusts. Bancorp has unconditionally guaranteed all of the obligations of the Trusts.

Following are the terms of the Trust Preferred Securities:

	<u>BEO Statutory Trust I</u>	<u>BEO Statutory Trust II</u>
Amount outstanding	\$4,124,000	\$3,093,000
Date of original issue	December 17, 2003	March 17, 2005
Stated maturity	December 17, 2033	March 17, 2035
Optional redemption date	December 17, 2008	March 17, 2010
Interest rate	3-month LIBOR plus 2.85% (5.35% at December 31, 2005)	6.42% fixed for 5 years then 3-month LIBOR plus 1.90%

The Trust Preferred Securities are mandatorily redeemable, in whole or in part, upon repayment of the underlying Debentures at their stated maturities or their earlier redemption. The Debentures are redeemable prior to maturity at Bancorp’s option on or after the above noted optional redemption dates.

In accordance with provisions of FIN 46(R), the Trusts have not been consolidated in these financial statements. The \$7,217,000 of Debentures issued to the Trusts as of December 31, 2005 (\$4,124,000 as of December 31, 2004) are reflected as Debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets in the consolidated balance sheets.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

11. Interest and Fees on Loans:

Interest and fees on loans for the years ended December 31 are comprised of the following:

	<u>2005</u>	<u>2004</u>
Commercial and agricultural loans	\$ 2,957,680	\$ 1,798,342
Real estate loans	4,365,144	3,316,874
Consumer installment loans	<u>444,385</u>	<u>412,256</u>
	<u>\$ 7,767,209</u>	<u>\$ 5,527,472</u>

12. Interest Expense:

Interest expense for the years ended December 31 is comprised of the following:

	<u>2005</u>	<u>2004</u>
Savings and interest-bearing demand	\$ 1,256,434	\$ 576,516
Time deposits in excess of \$100,000	446,150	384,735
Other time deposits	<u>926,340</u>	<u>769,392</u>
Interest expense on deposits	2,628,924	1,730,643
Interest on junior subordinated debentures (Note 10)	401,559	181,927
Interest expense on short-term borrowings	<u>100,769</u>	<u>143,179</u>
Total interest expense	<u>\$ 3,131,252</u>	<u>\$ 2,055,749</u>

13. Benefit Plans:

The Bank has a 401(k) profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. Employer contributions were \$147,154 and \$132,770 in 2005 and 2004, respectively.

The Bank has deferred compensation plans covering certain key officers. At December 31, 2005 and 2004, the liabilities related to these plans included in the accompanying consolidated balance sheets totaled \$501,302 and \$393,466, respectively. The amount of expense charged to income in 2005 and 2004 was \$107,836 and \$67,483, respectively. To assist in the funding of the plans, the Bank is owner and beneficiary of life insurance on the key officers. The cash surrender value of these policies at December 31, 2005 and 2004, respectively, was \$1,019,412 and \$985,676, and is included in other assets (Note 7).

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

14. Other Expense:

Other expenses for the years ended December 31 are comprised of the following:

	<u>2005</u>	<u>2004</u>
Supplies, printing and postage	\$ 224,584	\$ 322,905
Amortization of core deposit intangible (Note 6)	280,963	312,029
Other amortization	69,631	24,000
Advertising and public relations	187,181	160,814
Professional services and examination expense	188,231	196,480
Communications	95,079	137,437
Other noninterest expense	746,706	722,690
	<u>\$ 1,792,375</u>	<u>\$ 1,876,355</u>

15. Income Taxes:

The provision for income taxes for the years ended December 31 consists of the following:

	<u>2005</u>	<u>2004</u>
Currently payable:		
Federal	\$ 105,000	\$ 219,000
State	17,000	108,000
	<u>122,000</u>	<u>327,000</u>
Deferred benefits:		
Federal	(46,000)	(204,000)
State	(9,000)	(42,000)
	<u>(55,000)</u>	<u>(246,000)</u>
	<u>\$ 67,000</u>	<u>\$ 81,000</u>

The provision for income taxes results in effective tax rates less than the federal income tax statutory rate. The reasons for the differences are as follows:

	<u>2005</u>	<u>2004</u>
Tax on income at statutory rate (34%)	\$ 349,109	\$ 342,424
State income tax, net of federal benefit	7,776	43,870
Nontaxable interest income, net of allocable interest expense	(274,149)	(293,457)
Other	(15,736)	(11,837)
	<u>\$ 67,000</u>	<u>\$ 81,000</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

15. Income Taxes, Continued:

The provision for deferred income taxes (benefit) results from timing differences in the recognition of transactions for financial statement and tax purposes. The nature and tax effects of these differences for the years ended December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Deferred compensation not deducted for tax purposes	\$ (39,684)	\$ (25,913)
Loan origination costs	7,235	17,619
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	63,993	(101,202)
Depreciation, amortization and impairment charges	(90,191)	(131,267)
Federal Home Loan Bank stock dividends	810	3,763
Other real estate expenses and loss provision	(2,024)	-
Other	4,861	(9,000)
	<u>\$ (55,000)</u>	<u>\$ (246,000)</u>

The components of deferred tax assets and liabilities at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Assets:		
Allowance for loan losses	\$ 346,932	\$ 414,139
Deferred compensation	192,554	146,332
Accrued vacation pay	33,886	30,196
Excess book over tax depreciation, amortization and impairment charges	17,437	-
Unrealized loss on investment securities available-for-sale	268,394	6,939
Total deferred tax assets	<u>859,203</u>	<u>597,606</u>
Liabilities:		
Excess tax over book depreciation, amortization and impairment charges	-	24,242
Loan origination costs	46,873	39,333
Federal Home Loan Bank stock dividends	31,205	30,361
Total deferred tax liabilities	<u>78,078</u>	<u>93,936</u>
Net deferred tax assets	<u>\$ 781,125</u>	<u>\$ 503,670</u>

Management believes that net deferred taxes will be recognized in the normal course of operations and, accordingly, management has not reduced net deferred tax assets by a valuation allowance.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

16. Financial Instruments with Off-Balance-Sheet Risk:

In order to meet the financing needs of its customers, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Financial instruments with off-balance-sheet risk at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Commitments to extend credit	\$ 30,625,688	\$ 23,838,382
Standby letters of credit and financial guarantees written	335,000	355,000

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

17. Loans to Related Parties:

The Bank has granted loans to officers and directors. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. The aggregate dollar amount of these loans outstanding was \$1,253,430 and \$1,268,607 at December 31, 2005 and 2004, respectively. Activity with respect to these loans during the year ended December 31 was as follows:

	2005	2004
Balance, January 1	\$ 1,268,607	\$ 972,255
Additions or renewals	1,368,397	1,410,140
Reclassification due to Director retirements	(54,275)	-
Amounts collected or renewed	(1,329,299)	(1,113,788)
Balance, December 31	<u>\$ 1,253,430</u>	<u>\$ 1,268,607</u>

In addition, there were \$817,012 and \$162,067 in commitments to extend credit to directors and officers at December 31, 2005 and 2004, respectively, which are included as part of commitments in Note 16.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

18. Fair Value Disclosures of Financial Instruments:

The following disclosures are made in accordance with provisions of Statement of Financial Accounting Standards (“SFAS”) No. 107, *Disclosures About Fair Value of Financial Instruments*. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The estimated fair values of the financial instruments at December 31, 2005 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 7,687,353	\$ 7,687,353
Securities	47,847,194	47,847,194
Loans, net of allowance for loan losses	108,361,675	106,459,809
Interest receivable	1,456,370	1,456,370
Federal Home Loan Bank stock	559,700	559,700
Financial liabilities:		
Deposits	155,949,196	155,893,146
Overnight borrowings	2,690,771	2,690,771
Junior subordinated debentures	7,217,000	7,097,995
Accrued interest payable	255,320	255,320

Cash and Cash Equivalents – The fair value approximates carrying amount.

Securities – Fair value is based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices from similar securities.

Loans – Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Variable rate loans not at contractual floors have carrying amounts that are a reasonable estimate of fair value.

Deposits – Fair value of demand, interest-bearing demand and savings deposits is the amount payable on demand at the reporting date. Fair value of time deposits is estimated using the interest rates currently offered for the deposits of similar remaining maturities. In accordance with provisions of SFAS No. 107, the estimated fair values of deposits do not take into account the benefit that results from low-cost funding such deposits provide.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

18. Fair Value Disclosures of Financial Instruments, Continued:

Overnight Borrowings – The carrying amount is a reasonable estimate of fair value because of the short-term nature of these borrowings.

Junior Subordinated Debentures – The fair value of fixed rate issuances is estimated using a discounted cash flow calculation. For variable rate issuances, the carrying amount approximates fair value.

Off-Balance-Sheet Financial Instruments – The carrying amount and fair value are based on fees charged for similar commitments and are not material.

19. Regulatory Matters:

Bancorp and the Bank are subject to the regulations of certain federal and state agencies and receive periodic examinations by those regulatory authorities. In addition, Bancorp and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board (“FRB”) and Federal Deposit Insurance Corporation (“FDIC”). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bancorp and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Bancorp’s and the Bank’s capital amounts and classification 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 Bancorp and the Bank to maintain minimum amounts and ratios (set forth in the following table below) of Total and Tier I capital to risk-weighted assets, and of Tier I capital to leverage assets, all as defined in the regulations. Management believes, as of December 31, 2005, that Bancorp and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent notification from the FRB and FDIC categorized Bancorp and the Bank as well capitalized. To be categorized as well capitalized Bancorp and the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution’s category.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

19. **Regulatory Matters, Continued:**

Debentures issued to the Trusts (Note 10), less the common stock of the Trusts, qualify as Tier 1 capital, subject to a 25% of Tier 1 capital limitation. In April 2005, the FRB issued a rule that continues to allow the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under this rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill, including core deposit intangibles. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions.

The Company's actual capital amounts (in thousands) and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital (to risk-weighted assets)	\$ 15,182	11.57%	\$ 10,499	8%	\$ 13,123	10%
Tier I capital (to risk-weighted assets)	9,850	7.51%	5,249	4%	7,874	6%
Tier I capital (to leverage assets)	9,850	5.59%	5,249	4%	8,823	5%
As of December 31, 2004:						
Total capital (to risk-weighted assets)	\$ 11,373	10.40%	\$ 8,747	8%	\$ 10,934	10%
Tier I capital (to risk-weighted assets)	8,809	8.06%	4,373	4%	6,560	6%
Tier I capital (to leverage assets)	8,809	5.13%	6,868	4%	8,585	5%

The Bank's actual capital amounts (in thousands) and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital (to risk-weighted assets)	\$ 14,754	11.24%	\$ 10,493	8%	\$ 13,116	10%
Tier I capital (to risk-weighted assets)	13,558	10.33%	5,247	4%	7,870	6%
Tier I capital (to leverage assets)	13,558	7.69%	7,051	4%	8,814	5%
As of December 31, 2004:						
Total capital (to risk-weighted assets)	\$ 11,203	10.26%	\$ 8,733	8%	\$ 10,917	10%
Tier I capital (to risk-weighted assets)	9,991	9.15%	4,367	4%	5,458	6%
Tier I capital (to leverage assets)	9,991	5.82%	6,862	4%	8,578	5%

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

20. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2005	2004
Assets:		
Cash, deposited with the Bank	\$ 374,127	\$ 5,599
Investments in:		
Bank subsidiary	14,588,265	11,761,791
Nonbank subsidiaries (Trusts)	217,000	124,000
Trust preferred securities issuance costs, net of amortization	72,000	96,000
Deferred tax benefit	-	76,000
	\$ 15,251,392	\$ 12,063,390
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	\$ 18,102	\$ 8,210
Junior subordinated debentures (Trusts)	7,217,000	4,124,000
Total liabilities	7,235,102	4,132,210
Stockholders' equity:		
Common stock	2,201,645	2,199,370
Surplus	1,486,546	1,471,495
Retained earnings and accumulated other comprehensive income	4,328,099	4,260,315
Total stockholders' equity	8,016,290	7,931,180
Total liabilities and stockholders' equity	\$ 15,251,392	\$ 12,063,390

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

20. Parent Company Financial Information, Continued:

STATEMENTS OF INCOME

	<u>Year Ended December 31</u>	
	<u>2005</u>	<u>2004</u>
Cash dividends from Bank	\$ 927,747	\$ 490,701
Less:		
Interest expense	(401,559)	(181,927)
Professional fees and administrative expenses	(24,368)	(17,321)
Amortization of trust preferred securities issuance costs	(24,000)	(24,000)
	<u>477,820</u>	<u>267,453</u>
Income before equity in undistributed earnings of the Bank		
	477,820	267,453
Equity in undistributed earnings of Bank	311,975	582,675
Credit for income taxes	170,000	76,000
	<u>170,000</u>	<u>76,000</u>
Net income	<u>\$ 959,795</u>	<u>\$ 926,128</u>

STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31</u>	
	<u>2005</u>	<u>2004</u>
Operating activities:		
Net income	\$ 959,795	\$ 926,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	(311,975)	(582,675)
Amortization of trust preferred securities issuance costs	24,000	24,000
Accrued interest payable	9,892	(4,592)
Deferred income taxes	(170,000)	(76,000)
	<u>511,712</u>	<u>286,861</u>
Net cash provided by operating activities		
	511,712	286,861
Investing activities:		
Investment in subsidiaries	(3,093,000)	-
Financing activities:		
Proceeds from issuance of junior subordinated debentures	3,093,000	-
Intercompany allocations	170,000	-
Issuance of common stock	17,063	30,983
Dividends paid	(330,247)	(373,893)
	<u>2,949,816</u>	<u>(342,910)</u>
Net cash provided by (used in) financing activities		
	2,949,816	(342,910)
Net increase (decrease) in cash	368,528	(56,049)
Cash, beginning of year	5,599	61,648
Cash, end of year	<u>\$ 374,127</u>	<u>\$ 5,599</u>