

BEO Bancorp and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2004 and 2003

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 97401

CONTENTS

	<u>Page</u>
Message to Our Stockholders	1
Financial Highlights	2
Board of Directors and Officers	3-4
Report of Independent Auditors	5
Financial Statements:	
Consolidated Balance Sheets	6
Consolidated Statements of Income	7
Consolidated Statements of Changes in Stockholders' Equity	8
Consolidated Statements of Cash Flows	9-10
Notes to Consolidated Financial Statements	11-30

Message to Our Stockholders

BEO Bancorp and the Bank of Eastern Oregon completed a very successful year in 2004 headlined by profitability, growth and the integration of an organization that doubled in asset size, geographic boundaries and complexity.

Net income for 2004 for BEO Bancorp was \$926,128, the second highest ever. This is a 34.5% increase over the \$688,724 earned in 2003. These significant profits were accomplished despite absorbing significant merger expenses early in the year and charges related to the sale of one Klamath First building and the write down of another branch value as it was prepared for sale late in the year.

Growth was an important factor in our success in 2004. Loan totals drove the profitability of the Bank with total loans increasing from \$57,063,308 to \$89,740,172, a 58% increase. Deposits increased 2.3%, which is important to note as institutions often see a decline in deposits after such an acquisition. Total assets also increased 7.4% from \$150,875,392 to \$162,038,471. At year end 2004, the Bank's balance sheet reflects a loan to deposit ratio of 60%, indicating sufficient liquidity to provide for continued growth and profitability in the coming year.

The other success for 2004 was the integration of all eleven of our branches of Bank of Eastern Oregon and the standardization of operations and systems. This was accomplished by very hard working, loyal and dedicated BEO staff. This made the transition very smooth for both new and existing customers.

The annual stockholders meeting of BEO Bancorp will be held March 31, 2005 in Boardman, Oregon at 7pm at the Port of Morrow Conference Center. I hope you will decide to join us as we review the audited financial reports of the Company and discuss the outlook for 2005.

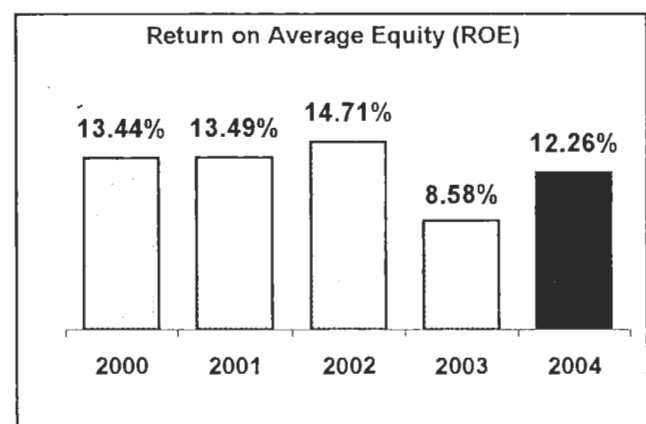
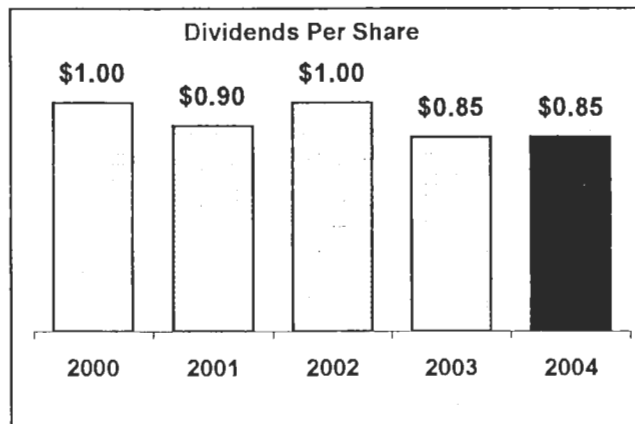
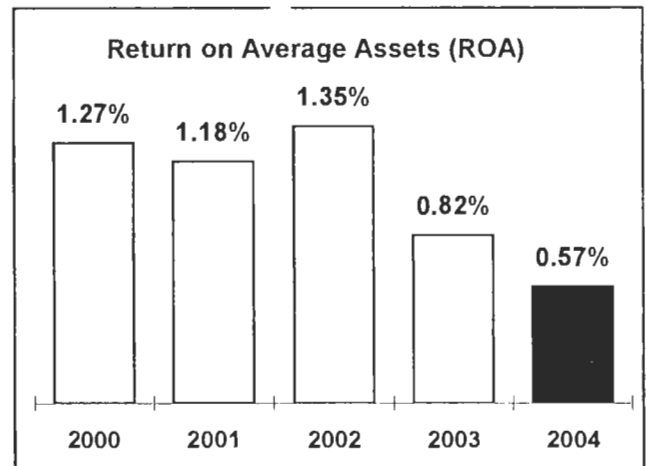
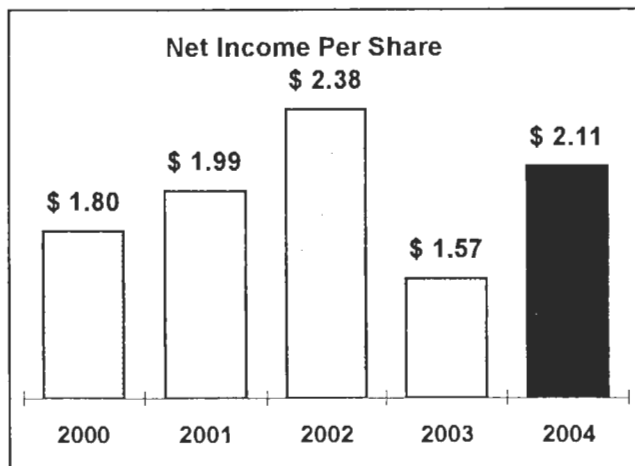
Sincerely,



E. George Koffler
President
BEO Bancorp

FINANCIAL HIGHLIGHTS 2000-2004

	2000	2001	2002	2003	2004
Return on Average Assets	1.27%	1.18%	1.35%	0.82%	0.57%
Return on Average Equity	13.44%	13.49%	14.71%	8.58%	12.26%
Net Income	\$ 789,425	\$ 871,853	\$ 1,043,678	\$ 688,724	\$ 926,128
Net Income Per Share	\$ 1.80	\$ 1.99	\$ 2.38	\$ 1.57	\$ 2.11
Total Equity	\$ 6,012,799	\$ 6,421,449	\$ 7,298,404	\$ 7,699,474	\$ 7,931,180
Total Assets	\$ 64,126,755	\$ 76,377,381	\$ 77,955,673	\$ 150,875,392	\$ 162,038,471



BEO Bancorp and Subsidiaries
December 31, 2004

Officers

E. George Koffler
President and Chief Executive Officer

Linda 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

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

Kevin McCabe
Assistant Vice President and IS Manager

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

Sherry Walters
*Assistant Vice President
and Arlington Branch Manager*

Jill Peck
Loan Officer

Robert Quinton
Loan Officer

Ed Rollins
Loan Officer

Rhonda Shaffer
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

ZIRKLE, LONG, TRIGUEIRO & WARD, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON 97401

Independent Auditor's Report

The Board of Directors
BEO Bancorp:

We have audited the accompanying balance sheet of BEO Bancorp and Subsidiaries (the "Company") as of December 31, 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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 Subsidiaries as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2003 financial statements were reviewed by us and our report thereon, dated January 24, 2004, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

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

Eugene, Oregon
January 30, 2005

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December 31, 2004

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

Eugene, Oregon
January 30, 2005

BEO Bancorp and Subsidiaries
Consolidated Balance Sheets

ASSETS	December 31	
	2004	2003 (Unaudited)
Cash and cash equivalents:		
Cash and due from banks (Note 2)	\$ 4,684,609	\$ 5,317,743
Interest-bearing deposits in Federal Home Loan Bank	6,946	8,590,996
Federal funds sold	-	37,395,000
Total cash and cash equivalents	4,691,555	51,303,739
Investment securities available-for-sale (Note 3)	58,521,856	34,110,035
Loans, less allowance for loan losses (Note 4)	88,528,093	56,054,775
Interest receivable	1,338,393	667,292
Federal Home Loan Bank stock	557,500	254,400
Property, net of accumulated depreciation (Note 5)	4,752,347	5,000,152
Core deposit intangible (Note 6)	1,785,490	2,097,519
Other assets (Note 7)	1,855,027	1,387,480
	157,338,706	99,571,653
Total assets	\$ 162,030,261	\$ 150,875,392
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 21,624,602	\$ 21,383,101
Savings and interest-bearing demand	73,658,078	66,948,555
Time, \$100,000 and over (Note 8)	15,128,331	19,928,633
Other time (Note 8)	31,176,373	30,205,402
	141,587,384	138,465,691
Borrowings (Note 9)	7,484,669	-
Trust preferred securities (Note 10)	4,000,000	4,000,000
Accrued interest payable	165,136	138,028
Other liabilities	861,892	572,199
Total liabilities	154,099,081	143,175,918
Stockholders' equity:		
Common stock, \$5 par value; 500,000 shares authorized, 439,874 shares outstanding (439,145 shares in 2003)	2,199,370	2,195,725
Additional paid-in capital	1,471,495	1,444,157
Retained earnings	4,275,224	3,722,989
Accumulated other comprehensive income (loss)	(14,909)	336,603
Total stockholders' equity	7,931,180	7,699,474
Total liabilities and stockholders' equity	\$ 162,030,261	\$ 150,875,392

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

BEO Bancorp and Subsidiaries
Consolidated Statements of Income

	Year Ended December 31	
	2004	2003 (Unaudited)
Interest income:		
Interest and fees on loans (Note 11)	\$ 5,527,472	\$ 4,572,752
Interest on investment securities:		
Taxable	1,869,729	183,768
Nontaxable	530,581	363,789
Interest on federal funds sold and short-term time deposits	75,859	53,813
	8,003,641	5,174,122
Interest expense (Note 12)	2,055,749	1,070,765
Net interest income	5,947,892	4,103,357
Provision for loan losses (Note 4)	240,000	334,500
Net interest income after provision for loan losses	5,707,892	3,768,857
Noninterest income:		
Service charges	1,320,167	661,945
Mortgage banking income	327,050	341,840
Gains on sales of investment securities, net	6,277	-
Other, principally financial services income	191,260	191,290
	1,844,754	1,195,075
Noninterest expense:		
Salaries and employee benefits (Note 13)	3,423,311	2,290,850
Occupancy expense	440,148	234,803
Equipment expense	665,905	507,443
Losses on sale of property	78,805	-
Asset impairment charge	60,994	-
Other (Note 14)	1,876,355	1,151,112
	6,545,518	4,184,208
Income before income taxes	1,007,128	779,724
Provision for income taxes (Note 15)	81,000	91,000
Net income	\$ 926,128	\$ 688,724
Earnings per share	\$ 2.11	\$ 1.57

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

BEO Bancorp and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

	<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, 2003 (Unaudited)	\$ 2,194,405	\$ 1,435,841	\$ 3,407,538	\$ 260,620	\$ 7,298,404
Net income			688,724		688,724
Other comprehensive income:					
Unrealized gains on investment securities				123,262	
Deferred income taxes				(47,279)	
Total other				<u>75,983</u>	<u>75,983</u>
Comprehensive income					<u>764,707</u>
Issuance of 264 shares of common stock	1,320	8,316			9,636
Cash dividends (\$.85 per share)			(373,273)		(373,273)
Balance, December 31, 2003 (Unaudited)	2,195,725	1,444,157	3,722,989	336,603	7,699,474
Net income			926,128		926,128
Other comprehensive income:					
Unrealized gains 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)			(373,893)		(373,893)
Balance, December 31, 2004	<u>\$ 2,199,370</u>	<u>\$ 1,471,495</u>	<u>\$ 4,275,224</u>	<u>\$ (14,909)</u>	<u>\$ 7,931,180</u>

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

BEO Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31	
	2004	2003 (Unaudited)
Cash flows from operating activities:		
Net income	\$ 926,128	\$ 688,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	468,141	401,124
Losses on sales of property	78,805	-
Asset impairment charge	60,994	-
Gains on sales of investment securities, net	(6,277)	-
Amortization of intangibles	336,029	11,993
Amortization of investment premiums, net	436,725	55,730
Provision for loan losses	240,000	334,500
Losses on foreclosed assets	-	10,838
Increase in cash value of life insurance	(34,121)	(38,133)
Deferred income taxes	(246,000)	(144,000)
Federal Home Loan Bank stock dividends	(9,800)	(8,100)
Change in:		
Interest receivable and other assets	(636,885)	(53,843)
Deferred loan fees	117,600	(9,884)
Accrued interest and other liabilities	245,939	71,607
Income taxes payable	151,600	(193,982)
Net cash provided by operating activities	2,128,878	1,126,574
Cash flows from investing activities:		
Proceeds from sales of investment securities	5,555,030	-
Proceeds from maturities of investment securities	18,657,319	3,447,895
Purchase of investment securities	(49,915,810)	(25,773,329)
Purchase of loans	(3,360,000)	(2,102,525)
Proceeds from sales of loans	2,515,000	872,856
Proceeds from sales of property	351,600	-
Proceeds from sale of foreclosed assets	-	451,646
Loans originated, net of principal collected	(31,985,918)	2,661,202
Purchase of property	(821,735)	(471,051)
Acquisition of Klamath First branch properties and deposits, net of cash received	-	(4,470,295)
Net cash used in investing activities	(59,004,514)	(25,383,601)
Cash flows from financing activities:		
Repurchase agreements and federal funds purchased	7,484,669	-
Deposit liabilities assumed	-	64,643,574
Net increase in deposits	3,121,693	3,972,143
Net proceeds from issuance of trust preferred securities	-	3,880,000
Issuance of common stock	30,983	9,636
Dividends paid	(373,893)	(373,273)
Net cash provided by financing activities	10,263,452	72,132,080
Net increase (decrease) in cash and cash equivalents	(46,612,184)	47,875,053
Cash and cash equivalents, beginning of year	51,303,739	3,428,686
Cash and cash equivalents, end of year	\$ 4,691,555	\$ 51,303,739

BEO Bancorp and Subsidiaries
Consolidated Statements of Cash Flows, Continued

	Year Ended December 31	
	2004	2003
		(Unaudited)
Supplemental information:		
Cash paid during the year for:		
Income taxes	\$ 175,400	\$ 418,636
Interest	2,020,431	1,035,812
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	(351,512)	75,983
Transfer of loans to foreclosed assets	-	393,900
Transfer of property to other real estate	110,000	-

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

BEO Bancorp and Subsidiaries

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 subsidiaries, Bank of Eastern Oregon (the “Bank”) and BEO Statutory Trust I (“Trust”). The Bank provides commercial and consumer financing, banking and mortgage lending and other services in Northeastern Oregon. The Trust was formed for the purpose of issuing trust preferred securities. 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, 2004 or 2003.

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 interest or straight-line method over the contractual life of the loan.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

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

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, 2004, the minimum required investment was \$111,700. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold.

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.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

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

Impairment of Long-Lived Assets Held for Sale – Long-lived assets classified as held for sale 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.

Recently Issued Accounting Pronouncements – In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46 (“FIN 46”), *Consolidation of Variable Interest Entities*, that addresses the consolidation rules to be applied to “variable interest entities”. FIN 46 has raised questions about whether certain entities, such as BEO Statutory Trust I, are considered a variable interest entity and should therefore not be consolidated. The interpretation is effective for entities created after December 31, 2003 and for all entities of nonpublic companies, such as BEO Bancorp, for years beginning after December 15, 2004. Upon implementation of FIN 46 in 2005, we will be required to make certain adjustments to our consolidated financial statements to reflect the deconsolidation. We do not expect that such adjustments will have a material effect on the consolidated financial statements.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

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

In December 2004, the FASB recently issued a statement, *Share-Based Payment*, Statement 123(R), that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company's equity securities. This statement eliminates the use of APB 25 and generally requires that such transactions be accounted for using a fair-value based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The statement substantially amends SFAS No. 123. The statement is effective for periods beginning after December 15, 2005 for Bancorp. We do not expect this statement to have a material effect on the consolidated financial statements.

In March 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force regarding issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ("EITF 03-01"). The consensus provided guidance for determining when an investment is other-than-temporarily-impaired. The guidance was effective for periods beginning after June 15, 2004. On September 30, 2004, the FASB deferred the implementations of the recognition criteria of EITF 03-01 until the fourth quarter of 2004. Adoption of this standard did not affect Bancorp's 2004 consolidated financial statements.

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

Reclassifications – The 2003 figures have been reclassified where appropriate to conform with the financial statement presentation used in 2004. These reclassifications had no effect on previously reported net income.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

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 amount of average required reserve balance for the periods ending December 31, 2004 and 2003 was approximately \$1,168,000 and \$407,000, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

3. Investment Securities:

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Securities in Continuous Unrealized Loss Position for Less Than 12 Months</u>	<u>Securities in Continuous Unrealized Loss Position for 12 Months or Longer</u>
<u>Unrealized Loss Positions</u>						
Obligation of U.S. Government agencies	\$ 9,494,102	\$ -	\$ 50,420	\$ 9,443,682	\$ 9,443,682	\$ -
Mortgage-backed securities	33,877,586	-	374,228	33,503,358	33,120,885	382,473
Obligations of states and political subdivisions	2,690,066	-	13,660	2,676,406	2,676,406	-
	<u>46,061,754</u>	<u>-</u>	<u>438,308</u>	<u>45,623,446</u>	<u>\$ 45,240,973</u>	<u>\$ 382,473</u>
<u>Unrealized Gain Positions</u>						
Obligation of U.S. Government agencies	2,987,816	11,872	-	2,999,688		
Mortgage-backed securities	69,374	2,147	-	71,521		
Obligations of states and political subdivisions	9,424,761	402,440	-	9,827,201		
	<u>12,481,951</u>	<u>416,459</u>	<u>-</u>	<u>12,898,410</u>		
Total	<u>\$ 58,543,705</u>	<u>\$ 416,459</u>	<u>\$ 438,308</u>	<u>\$ 58,521,856</u>		

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

3. **Investment Securities, Continued:**

At December 31, 2004, 52 investment securities, principally mortgage-backed securities, were in unrealized loss positions. The majority of these securities were acquired in early 2004. The decline in value of these securities has resulted from increases in market interest rates during the second half of 2004. The projected average life of the mortgage-backed securities portfolio is approximately four years. Although yields on these securities may be below market rates during that period, no loss of principal is expected.

The amortized cost and estimated fair values of investment securities at December 31, 2003 are as follows:

	Available-for-Sale			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government agencies	\$ 12,486,023	\$ 62,690	\$ 6,634	\$ 12,542,079
Mortgage-backed securities	11,102,098	11,794	28,288	11,085,604
Obligations of states and political subdivisions	9,975,870	506,482	-	10,482,352
	<u>\$ 33,563,991</u>	<u>\$ 580,966</u>	<u>\$ 34,922</u>	<u>\$ 34,110,035</u>

The amortized cost and estimated fair value of investment securities at December 31, 2004 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.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

3. **Investment Securities, Continued:**

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 5,501,002	\$ 5,491,545
Due after one year through five years	7,678,615	7,717,616
Due after five years	11,417,128	11,737,816
Mortgage-backed securities	33,946,960	33,574,879
	\$ 58,543,705	\$ 58,521,856

Gross realized gains and losses on sales of investment securities totaled \$50,738 and \$44,461, respectively, in 2004. There were no sales of investment securities in 2003.

At December 31, 2004, investment securities with amortized costs of \$26,017,408 and estimated fair values of \$26,179,707 were pledged for public deposits, repurchase agreements and Federal Home Loan Bank borrowings (\$9,087,000 and \$9,460,401 in 2003, respectively).

4. **Loans:**

Major classifications of loans at December 31 are as follows:

	2004	2003 (Unaudited)
Commercial and agricultural loans	\$ 35,306,405	\$ 18,199,791
Real estate loans	49,327,053	34,766,856
Consumer loans	5,376,551	4,248,898
	90,010,009	57,215,545
Deferred loan origination fees	(269,837)	(152,237)
	89,740,172	57,063,308
Allowance for loan losses	(1,212,079)	(1,008,533)
	\$ 88,528,093	\$ 56,054,775

The loan portfolio at December 31, 2004 and 2003 includes \$59,393,842 and \$34,125,424, respectively, of loans which have a variable rate of interest. The December 31, 2004 amount includes \$45,192,062 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 \$9,287,826 and \$7,463,237 at December 31, 2004 and 2003, respectively.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

4. **Loans, Continued:**

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>
2004:			
Commercial	\$ 986,204	\$ -	-
Real estate	-	-	-
	<u>\$ 986,204</u>	<u>\$ -</u>	<u>\$ -</u>
2003 (unaudited):			
Commercial	\$ 997,142	\$ -	-
Real estate	-	-	-
	<u>\$ 997,142</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2004</u>	<u>2003 (Unaudited)</u>
Balance, beginning of year	\$ 1,008,533	\$ 750,000
Loans charged off	(67,178)	(88,322)
Provision charged to income	240,000	334,500
Recoveries credited to allowance	30,724	12,355
Balance, end of year	<u>\$ 1,212,079</u>	<u>\$ 1,008,533</u>

Restructured and other loans considered impaired, including all nonaccrual loans, totaled \$986,402 and \$997,142 at December 31, 2004 and 2003, respectively. The specific valuation allowance for loan losses related to these impaired loans was \$493,102 and \$498,571 at December 31, 2004 and 2003, respectively. The average recorded investment in impaired loans was approximately \$996,000 and \$1,150,000 in 2004 and 2003, respectively. No interest income was recognized on impaired loans during 2004 and 2003. Interest income which would have been realized on nonaccrual loans if they had remained current and still accruing was approximately \$60,000 and \$76,000 in 2004 and 2003, respectively.

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

4. **Loans, Continued:**

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

The Bank's agricultural loans totaled \$23,777,230 or 26% at December 31, 2004 of its loan portfolio and \$11,155,271 or 20% at December 31, 2003. 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.

5. **Property:**

Property at December 31 consists of the following:

	2004	2003 (Unaudited)
Land	\$ 573,767	\$ 605,408
Buildings and improvements	4,376,580	4,326,904
Furniture and equipment	2,735,280	2,577,518
	7,685,627	7,509,830
Accumulated depreciation	2,933,280	2,509,678
	\$ 4,752,347	\$ 5,000,152

6. **Core Deposit Intangible:**

The core deposit intangible of \$2,109,512 purchased in 2003 is being amortized over a ten-year period on an accelerated basis. Amortization of \$312,029 and \$11,993 was recorded in 2004 and 2003, respectively. Forecasted amortization for the next five years is as follows:

2005	\$ 280,963
2006	254,506
2007	231,142
2008	210,450
2009	192,082

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

7. Other Assets:

Other assets at December 31 consist of the following:

	<u>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Cash value of life insurance (Note 13)	\$ 985,676	\$ 951,555
Prepaid expenses and insurance contracts	159,681	193,897
Capitalized trust preferred securities issuance costs, net of \$24,000 amortization in 2004	96,000	120,000
Long-lived assets held for sale (former branch office), net of \$60,994 impairment loss in 2004	110,000	-
Income tax deposits	-	80,738
Deferred income taxes	503,670	41,290
	<u>\$ 1,855,027</u>	<u>\$ 1,387,480</u>

8. Deposits:

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

	<u>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Less than one year	\$ 36,155,566	\$ 40,013,121
One to three years	7,483,514	7,675,056
Over three years	2,665,624	2,445,858
	<u>\$ 46,304,704</u>	<u>\$ 50,134,035</u>

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

9. **Borrowings:**

Borrowings at December 31, 2004 consist 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%). The Bank had no borrowings outstanding at December 31, 2003.

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

At December 31, 2004, the Bank has lines of credit totaling approximately \$15,607,000 from the Federal Home Loan Bank of Seattle and \$9,000,000 (\$8,025,000 available) of federal funds lines with correspondent banks.

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

10. **Trust Preferred Securities:**

BEO Statutory Trust I ("Trust") is a Connecticut statutory trust of which all of the common securities are owned by BEO Bancorp. The Trust was formed for the purpose of issuing Floating Rate Capital Securities ("Trust Preferred Securities") and investing the proceeds in a like amount of Floating Rate 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 Trust and are eliminated, along with the related income statement effects, in the consolidated financial statements. Bancorp has unconditionally guaranteed all of the obligations of the Trust. Under applicable regulatory guidelines, the Trust Preferred Securities qualify as Tier I capital (subject to a 25% of Tier I capital limitation).

Following are the terms of the Trust Preferred Securities:

Amount outstanding	\$4,000,000
Date of original issue	December 17, 2003
Stated maturity	December 17, 2033
Optional redemption date	December 17, 2008
Interest rate	3-month LIBOR plus 2.85% (5.35125% at December 31, 2004)

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 optional redemption date in 2008.

BEO Bancorp and Subsidiaries
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>2004</u>	<u>2003</u> (Unaudited)
Commercial and agricultural loans	\$ 1,798,342	\$ 1,321,019
Real estate loans	3,316,874	2,921,539
Consumer installment loans	<u>412,256</u>	<u>330,194</u>
	<u>\$ 5,527,472</u>	<u>\$ 4,572,752</u>

12. Interest Expense:

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

	<u>2004</u>	<u>2003</u> (Unaudited)
Savings and interest-bearing demand	\$ 576,516	\$ 197,525
Time deposits in excess of \$100,000	384,735	331,020
Other time deposits	<u>769,392</u>	<u>513,756</u>
Interest expense on deposits	1,730,643	1,042,301
Interest on trust preferred securities (Note 10)	181,927	12,802
Interest expense on short-term borrowings	<u>143,179</u>	<u>15,662</u>
Total interest expense	<u>\$ 2,055,749</u>	<u>\$ 1,070,765</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 \$132,770 and \$90,508 in 2004 and 2003, respectively.

The Bank has deferred compensation plans covering certain key officers. At December 31, 2004 and 2003, the liabilities related to these plans included in the accompanying consolidated balance sheets totaled \$393,466 and \$325,983, respectively. The amount of expense charged to income in 2004 and 2003 was \$67,483 and \$62,308, 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, 2004 and 2003, respectively, was \$985,676 and \$951,555, and is included in other assets (see Note 7).

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

14. Other Expense:

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

	<u>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Supplies, printing and postage	\$ 394,588	\$ 236,555
Amortization (Note 6)	312,029	
Advertising and public relations	151,082	75,660
Professional services	98,680	139,925
Communications	137,437	92,394
Other noninterest expense	782,539	606,578
	<u>\$ 1,876,355</u>	<u>\$ 1,151,112</u>

15. Income Taxes:

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

	<u>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Currently payable:		
Federal	\$ 219,000	\$ 164,000
State	108,000	71,000
	<u>327,000</u>	<u>235,000</u>
Deferred benefits:		
Federal	(204,000)	(119,000)
State	(42,000)	(25,000)
	<u>(246,000)</u>	<u>(144,000)</u>
	<u>\$ 81,000</u>	<u>\$ 91,000</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>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Tax on income at statutory rate (34%)	\$ 342,424	\$ 265,106
State income tax, net of federal benefit	43,870	33,965
Nontaxable interest income, net of allocable interest expense	(293,457)	(198,335)
Other	(11,837)	(9,736)
	<u>\$ 81,000</u>	<u>\$ 91,000</u>

BEO Bancorp and Subsidiaries
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>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Deferred compensation not deducted for tax purposes	\$ (25,913)	\$ (23,926)
Loan origination costs	17,619	(2,017)
Loan loss deduction for tax purposes less than provision for financial reporting purposes	(101,202)	(147,161)
Depreciation, amortization and impairment charges	(131,267)	12,408
Federal Home Loan Bank stock dividends	3,763	3,110
Other real estate expenses and loss provision	-	8,379
Other	(9,000)	5,207
	<u>\$ (246,000)</u>	<u>\$ (144,000)</u>

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

	<u>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Assets:		
Allowance for loan losses	\$ 414,139	\$ 306,908
Deferred compensation	146,332	123,697
Accrued vacation pay	30,196	28,515
Unrealized loss on investment securities available-for-sale	6,939	-
Total deferred tax assets	<u>597,606</u>	<u>459,120</u>
Liabilities:		
Excess tax over book depreciation, amortization and impairment charges	24,242	160,052
Loan origination costs	39,333	21,734
Federal Home Loan Bank stock dividends	30,361	26,603
Unrealized gain on investment securities available-for-sale	-	209,441
Total deferred tax liabilities	<u>93,936</u>	<u>417,830</u>
Net deferred tax assets	<u>\$ 503,670</u>	<u>\$ 41,290</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 Subsidiaries
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>2004</u>	<u>2003</u> <u>(Unaudited)</u>
Commitments to extend credit	\$ 23,838,382	\$ 22,423,019
Standby letters of credit and financial guarantees written	355,000	110,000

BEO Bancorp and Subsidiaries
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 approximately \$1,268,607 and \$972,255 at December 31, 2004 and 2003, respectively. Activity with respect to these loans during the year ended December 31 was as follows:

	2004	2003 (Unaudited)
Balance, January 1	\$ 972,255	\$ 942,572
Additions or renewals	1,410,140	1,262,854
Amounts collected or renewed	(1,113,788)	(1,233,171)
Balance, December 31	\$ 1,268,607	\$ 972,255

In addition, there were \$282,025 and \$162,067 in commitments to extend credit to directors and officers at December 31, 2004 and 2003, respectively, which are included as part of commitments in Note 16.

18. Branch Acquisitions:

In December 2003, the Bank purchased certain assets and deposits of seven branch offices of Klamath First Federal Savings and Loan Association. The acquisition was accounted for as an asset acquisition, thus no goodwill was recorded.

The net purchase cost of \$5,072,819 cost was allocated based on the relative fair values of the assets acquired as follows:

	Unaudited
Land	\$ 277,172
Buildings	1,944,004
Equipment	139,607
Loans	602,524
Core deposit intangible (Note 6)	2,109,512
	\$ 5,072,819

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

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 federal banking agencies. 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 the Company 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, 2004, that the Company and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the Federal Reserve Board and Federal Deposit Insurance Corporation categorized the Company and the Bank as well capitalized. To be categorized as well capitalized, the Company 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 Subsidiaries
Notes to Consolidated Financial Statements, Continued

19. **Regulatory Matters, Continued:**

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, 2004:						
Total capital (to risk-weighted assets)	\$ 11,373	10.40%	\$ 8,733	8%	\$ 10,917	10%
Tier I capital (to risk-weighted assets)	8,809	8.06%	4,367	4%	5,458	6%
Tier I capital (to leverage assets)	8,809	5.13%	6,862	4%	8,578	5%
As of December 31, 2003 (unaudited):						
Total capital (to risk-weighted assets)	\$ 10,281	12.53%	\$ 6,565	8%	\$ 8,206	10%
Tier I capital (to risk-weighted assets)	7,720	9.41%	3,282	4%	4,923	6%
Tier I capital (to leverage assets)	7,720	7.97%	3,873	4%	4,841	5%

The Bank'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, 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%
As of December 31, 2003 (unaudited):						
Total capital (to risk-weighted assets)	\$ 10,112	12.34%	\$ 6,555	8%	\$ 8,193	10%
Tier I capital (to risk-weighted assets)	9,097	11.10%	3,277	4%	4,916	6%
Tier I capital (to leverage assets)	9,097	9.40%	3,873	4%	4,841	5%

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

20. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2004	2003 (Unaudited)
Assets:		
Cash, deposited with the Bank	\$ 1,599	\$ 57,648
Investments in:		
Bank subsidiary	11,761,791	11,530,628
Nonbank subsidiary	100,000	124,000
Deferred tax benefit	76,000	-
	\$ 11,939,390	\$ 11,712,276
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	\$ 8,210	\$ 12,802
Subordinated debentures (Trust)	4,000,000	4,000,000
Total liabilities	4,008,210	4,012,802
Stockholders' equity:		
Common stock	2,199,370	2,195,725
Surplus	1,471,495	1,444,157
Retained earnings and accumulated other comprehensive income	4,260,315	4,059,592
Total stockholders' equity	7,931,180	7,699,474
Total liabilities and stockholders' equity	\$ 11,939,390	\$ 11,712,276

BEO Bancorp and Subsidiaries
Notes to Consolidated Financial Statements, Continued

20. **Parent Company Financial Information, Continued:**

STATEMENTS OF INCOME

	Year Ended December 31	
	2004	2003 (Unaudited)
Cash dividends from Bank	\$ 490,701	\$ 497,273
Less:		
Interest expense	(181,927)	(12,802)
Professional fees	(9,066)	(2,780)
Administrative expenses	(8,255)	-
	291,453	481,691
Income before equity in undistributed earnings of the Bank		
Equity in undistributed earnings of Bank	558,675	207,033
Credit for income taxes	76,000	-
	\$ 926,128	\$ 688,724
Net income		

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2004	2003 (Unaudited)
Cash flows from operating activities:		
Net income	\$ 926,128	\$ 688,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	(558,675)	(207,033)
Accrued interest payable	(4,592)	12,802
Deferred income taxes	(76,000)	-
	286,861	494,493
Net cash provided by operating activities		
Cash flows used in investing activities:		
Investment in nonbank subsidiary (Trust)	-	(124,000)
Cash flows from financing activities:		
Issuance of common stock	30,983	9,636
Dividends paid	(373,893)	(373,273)
	(342,910)	(363,637)
Net cash used in financing activities		
Net increase (decrease) in cash	(56,049)	6,856
Cash, beginning of year	57,648	50,792
Cash, end of year	\$ 1,599	\$ 57,648