

BEO Bancorp and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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

ISLER CPA, LLC
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON

BEO Bancorp and Subsidiary

CONTENTS

	<u>Page</u>
Message to Our Stockholders	1
Financial Highlights	2
Board of Directors and Officers	3
Report of Independent Auditors	4
Financial Statements:	
Consolidated Balance Sheets	5
Consolidated Statements of Income	6
Consolidated Statements of Changes in Stockholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	10-33

Message to our Stockholders

It is a pleasure to report to stockholders of BEO Bancorp and its subsidiary, Bank of Eastern Oregon on the financial highlights of 2007, a year marked by record profitability and strong, manageable growth.

Net income was \$2,324,781 for the year. This is a record for annual earnings and compares to 2006 earnings of \$1,465,189, an increase of 58.7% year over year. Net income per share was \$2.64 compared to \$1.66 in 2006, adjusted for the two for one stock split.

Return on Average Assets and Return on Average Equity also showed significant improvement, growing from .80% and 16.85% respectively to 1.19% and 22.11%. ROAE was so outstanding that US Banker magazine, in its January 2008 issue, rated BEO Bancorp return on equity as 11th highest for all banks nationally and 4th highest in the community bank classification.

Growth was steady and significant. Total assets of the company were \$207,635,914, closing the year above the \$200,000,000 mark for the first time in history. This was a 12.6% increase over the year end 2006 total assets of \$184,375,521. Loans continued to drive the growth of the bank with total loans at year end 2007 at \$148,274,080 compared to \$119,783,377 at the previous year end, an increase of \$28,481,703, a 23.8% improvement. Total deposits grew at a slower pace from \$162,453,911 to \$170,160,204 year over year, an increase of 4.7%.

Capital growth was impressive, growing from \$9,349,997 to \$11,680,206. At the bank level, Tier 1 capital improved from 8.17% to 8.70%.

The performance of the bank was keyed by a management team that continued to find ways to increase revenue and control expenses, a support staff that provides top quality back office results, a credit team that improved loan totals without sacrificing quality and a veteran, dedicated branch system of employees that consistently provides excellent customer service.

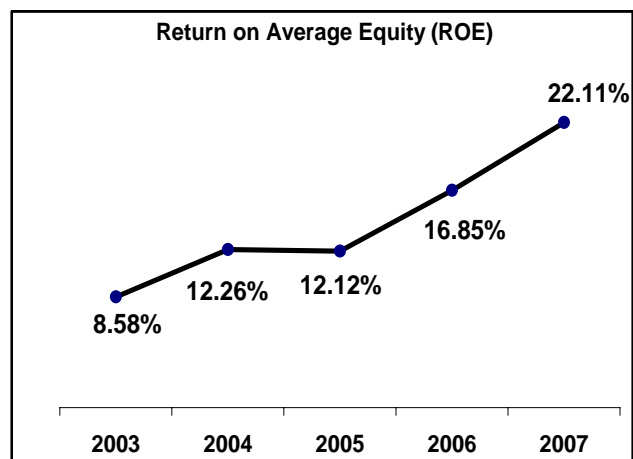
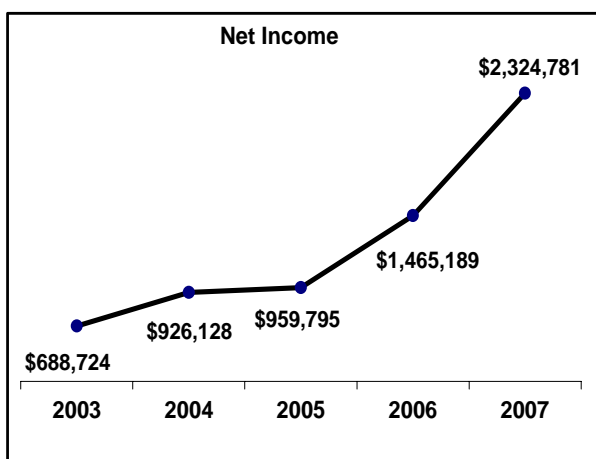
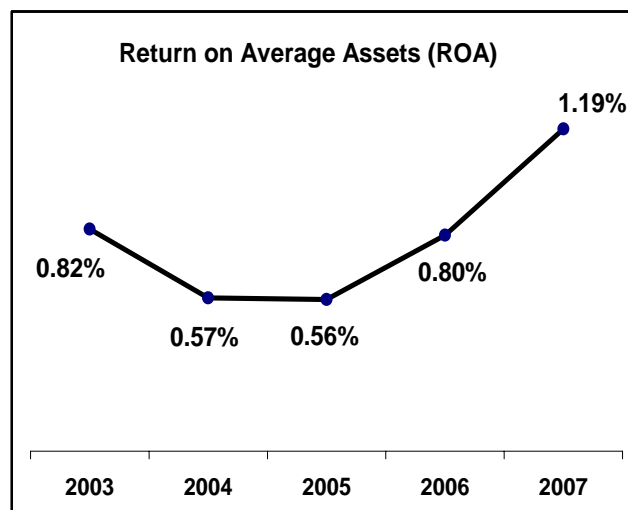
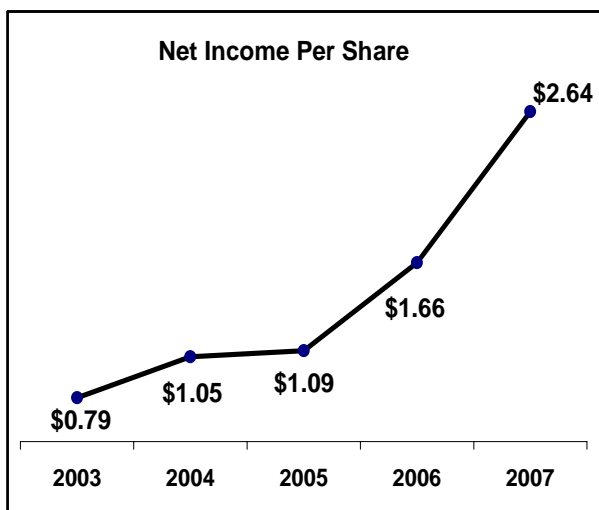
The annual meeting of BEO Bancorp will be held at 7pm in Heppner, Oregon at the Catholic Parish Hall on Wednesday, March 26th. Please join us as we elect three directors and discuss the results of 2007.

Respectfully,

E. George Koffler
President and CEO
BEO Bancorp

FINANCIAL HIGHLIGHTS 2003-2007

	2003	2004	2005	2006	2007
Return on Average Assets	0.82%	0.57%	0.56%	0.80%	1.19%
Return on Average Equity	8.58%	12.26%	12.12%	16.85%	22.11%
Net Income	\$ 688,724	\$ 926,128	\$ 959,795	\$ 1,465,189	\$ 2,324,781
Net Income Per Share	\$ 0.79	\$ 1.05	\$ 1.09	\$ 1.66	\$ 2.64
Total Equity	\$ 7,699,474	\$ 7,931,180	\$ 8,016,290	\$ 9,349,997	\$ 11,680,206
Total Assets	\$ 150,875,392	\$ 162,154,261	\$ 174,991,145	\$ 184,375,964	\$ 207,635,914



Board of Directors

December 31, 2007

Joel Peterson, Chairman
Farmer

Bradley B. Anderson, Vice Chairman
Farmer/Rancher

Linda K. LaRue
Retired Banker

E. George Koffler
President and Chief Executive Officer
Bank of Eastern Oregon

Gary D. Neal
General Manager, Port of Morrow

Ned E. Clark
Rancher

Robert M. Armstrong
Certified Public Accountant

Executive Officers

E. George Koffler, President and Chief Executive Officer
Gary L. Prophet, Executive Vice President and Chief Operations Officer
Jeff L. Bailey, Executive Vice President and Chief Credit Officer
Mark D. Lemmon, Executive Vice President and Chief Financial Officer

Vice Presidents

Melissa Lindsay, Vice President and Mortgage Loan Officer/Manager
Richard K. Wood, Vice President and Loan Officer
James W. Gardner, Vice President and Loan Officer
William L. Hubble, Vice President and Loan Officer
John E. Bailey, Vice President and Loan Officer
Robert S. Williams, Vice President and Loan Officer
Kevin McCabe, Vice President and IS Manager
Rebecca K. Kindle, Vice President and Branch Administrator

Assistant Vice Presidents

Sheryl A. Walters, Assistant Vice President and Arlington Branch Manager
Tricia L. Gunderson, Assistant Vice President and Human Resources Manager
Janet D. Dezelle, Assistant Vice President, Finance Officer, and Loan Servicing Manager
John Qualls, Assistant Vice President and Loan Officer
Robert Quinton, Assistant Vice President and Loan Officer
Edward C. Rollins, Assistant Vice President and Loan Officer
Rhonda Shaffer, Assistant Vice President and Loan Officer
Joyce G. Moser, Assistant Vice President, Burns Branch Manager, and Loan Officer
Sharon Harrison, Assistant Vice President, Heppner Branch Manager, and Loan Officer
Dawna Dougherty, Assistant Vice President and Compliance Officer



Independent Auditor's Report

The Board of Directors
BEO Bancorp:

We have audited the accompanying balance sheets of BEO Bancorp and Subsidiary (the "Company") as of December 31, 2007 and 2006, 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, 2007 and 2006, 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.

Isler CPA, LLC

Eugene, Oregon
January 18, 2008

**BEO Bancorp and Subsidiary
Consolidated Balance Sheets**

ASSETS	December 31	
	2007	2006
Cash and cash equivalents:		
Cash and due from banks	\$ 6,186,351	\$ 5,072,290
Federal Funds Sold	-	2,090,000
Total cash and cash equivalents	6,186,351	7,162,290
Investment securities available-for-sale	41,271,422	46,102,208
Loans, less allowance for loan losses	148,274,080	119,783,377
Interest receivable	2,098,348	1,836,434
Federal Home Loan Bank stock	559,700	559,700
Property, less accumulated depreciation	5,366,907	5,053,093
Core deposit intangible, less accumulated amortization	1,018,879	1,250,021
Deferred taxes, net	1,145,697	844,884
Other assets	1,714,530	1,783,514
	201,449,563	177,213,231
Total assets	\$ 207,635,914	\$ 184,375,521
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 29,842,019	\$ 26,162,771
Savings and interest-bearing demand	89,124,254	90,725,456
Time, \$100,000 and over	18,107,417	13,068,973
Other time	33,086,514	32,496,711
	170,160,204	162,453,911
Other Borrowings	16,922,552	3,553,497
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	322,339	298,803
Income taxes payable	-	488,670
Other liabilities	1,333,613	1,013,643
Total liabilities	195,955,708	175,025,524
Stockholders' equity:		
Common stock, \$5 par value; 2,500,000 shares authorized, 880,658 shares outstanding	2,201,645	2,201,645
Additional paid-in capital	1,486,546	1,486,546
Retained earnings	7,880,134	6,039,714
Accumulated other comprehensive income (loss)	111,881	(377,908)
Total stockholders' equity	11,680,206	9,349,997
Total liabilities and stockholders' equity	\$ 207,635,914	\$ 184,375,521

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

BEO Bancorp and Subsidiary Consolidated Statements of Income

	Year Ended December 31	
	2007	2006
Interest income:		
Interest and fees on loans	\$ 11,724,693	\$ 10,026,673
Interest on investment securities:		
Taxable	1,361,132	1,425,571
Nontaxable	548,072	484,593
Interest on federal funds sold and short-term time deposits	310,411	215,029
	13,944,308	12,151,866
Interest expense	4,711,054	4,678,873
Net interest income	9,233,254	7,472,993
Provision for loan losses	240,000	279,500
Net interest income after provision for loan losses	8,993,254	7,193,493
Noninterest income:		
Service charges	1,370,635	1,363,387
Mortgage banking income	440,108	370,512
Other, principally financial services income	189,377	192,654
	2,000,120	1,926,553
Noninterest expense:		
Salaries and employee benefits	4,882,743	4,214,017
Occupancy expense	532,774	473,834
Equipment expense	668,114	683,636
Losses on property dispositions	-	23,311
Losses on sales of available-for-sale securities, net	27,792	-
Other	1,739,170	1,818,059
	7,850,593	7,212,857
Income before income taxes	3,142,781	1,907,189
Provision for income taxes	818,000	442,000
Net income	\$ 2,324,781	\$ 1,465,189
Earnings per share	\$ 2.64	\$ 1.66

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

BEO Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2007 and 2006

	<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, 2006	\$ 2,201,645	\$ 1,486,546	\$ 4,904,772	\$ (576,673)	\$ 8,016,290
Net income			1,465,189		1,465,189
Other comprehensive income:					
Unrealized gains on investment securities				291,276	
Deferred income taxes				(92,511)	
Total other				198,765	198,765
Comprehensive income					1,663,954
Cash dividends (\$.375 per share)			(330,247)		(330,247)
Balance, December 31, 2006	2,201,645	1,486,546	6,039,714	(377,908)	9,349,997
Net income			2,324,781		2,324,781
Other comprehensive income:					
Reclassification of losses realized on sale of investment securities				27,792	
Unrealized gains on investment securities				695,516	
Deferred income taxes				(233,519)	
Total other				489,789	489,789
Comprehensive income					2,814,570
Cash dividends (\$.55 per share)			(484,361)		(484,361)
Balance, December 31, 2007	<u>\$ 2,201,645</u>	<u>\$ 1,486,546</u>	<u>\$ 7,880,134</u>	<u>\$ 111,881</u>	<u>\$ 11,680,206</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	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 2,324,781	\$ 1,465,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	410,925	448,769
Net gains or losses on property dispositions	(20,707)	23,311
Losses on sales of investment securities	27,792	-
Amortization of investment premiums, net	148,730	187,911
Amortization, other	277,407	323,101
Provision for loan losses	240,000	279,500
Increase in cash value of life insurance	(44,252)	(33,878)
Deferred income taxes	17,000	(156,000)
Change in:		
Interest receivable and other assets	(299,860)	(424,697)
Deferred loan fees	30,385	17,019
Accrued interest and other liabilities	343,506	169,559
Income taxes payable	(446,670)	488,670
Net cash from operating activities	<u>3,009,037</u>	<u>2,788,454</u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities	8,669,311	11,043,726
Proceeds from sale of available-for-sale securities	5,288,689	-
Purchase of investment securities	(8,580,428)	(9,195,375)
Purchase of loans	(9,238,542)	(5,784,144)
Proceeds from sale of loans	1,098,347	1,018,503
Proceeds from sale of property	458,118	11,000
Proceeds from sale of foreclosed assets	47,874	-
Loans originated, net of principal collected	(20,668,767)	(6,927,580)
Purchases of property	(1,057,647)	(512,997)
Purchase of State of Oregon income tax credits	(592,916)	(3,843)
Net cash from investing activities	<u>(24,575,961)</u>	<u>(10,350,710)</u>
Cash flows from financing activities:		
Repurchase agreements and federal funds purchased	13,369,055	862,725
Net increase in deposits	7,706,293	6,504,715
Dividends paid	(484,361)	(330,247)
Net cash from financing activities	<u>20,590,987</u>	<u>7,037,193</u>
Net decrease in cash and cash equivalents	(975,937)	(525,063)
Cash and cash equivalents, beginning of year	<u>7,162,290</u>	<u>7,687,353</u>
Cash and cash equivalents, end of year	<u>\$ 6,186,353</u>	<u>\$ 7,162,290</u>

BEO Bancorp and Subsidiary
Consolidated Statements of Cash Flows, Continued

	Year Ended December 31	
	2007	2006
Supplemental information:		
Cash paid during the year for:		
Income taxes	\$ 1,345,879	\$ 118,975
Interest	4,687,518	4,635,390
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	489,789	198,765
Transfer of loans to foreclosed assets	47,874	-

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:

Basis of Presentation – The consolidated financial statements include the accounts of BEO Bancorp (“Bancorp”), a bank holding company, and its wholly-owned subsidiary, Bank of Eastern Oregon (the “Bank”). All significant intercompany accounts and transactions have been eliminated in consolidation. Bancorp has also established subsidiary grantor trusts in connection with the issuance of trust preferred securities (see Note 10). In accordance with the requirements of Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, the accounts and transactions of these trusts are not included in the accompanying consolidated financial statements.

Description of Business - The Bank provides commercial and consumer financing, banking and mortgage lending and other services in Northeastern and Central Oregon. Its activities include the usual lending and deposit functions of a commercial bank: commercial, agricultural, real estate, installment, credit card and mortgage loans; checking, money market, time deposit and savings accounts; internet banking and bill payment; automated teller machines and safe deposit facilities. Additionally, the Bank originates and sells mortgage loans into the secondary market and offers investment services.

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.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

Loans Held-for-Sale – There were no loans held-for-sale at December 31, 2007 or 2006.

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 constant yield 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.

The Company classifies reserves related to commitments to loan in other liabilities.

Federal and State of Oregon bank regulatory agencies, as an integral part of their examination process, periodically review the Bank's reserve for loan losses. Such agencies may require the Bank to recognize additions to the reserve in the future based on their judgment of the information available to them at the time of their examinations.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

Federal Home Loan Bank Stock – The investment in Federal Home Loan Bank (“FHLB”) stock is carried at cost, 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, 2007, the minimum required investment was \$274,500. 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.

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. There were no impairment losses on long-lived assets at December 31, 2007.

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 July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No 109* (“FIN 48”). FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition and measurement evaluation process for tax positions. For recognition, an enterprise judgmentally determines whether it is more-likely-than-not that a tax position will be sustained upon examination, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold the benefit is measured and recognized in the financial statements. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized or, continue to be recognized, upon adoption of this Interpretation. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. FIN 48 is effective for fiscal years beginning after December 15, 2007. Accordingly, the Company plans to adopt FIN 48 on January 1, 2008. The Company is evaluating the impact of adoption of FIN 48 and at this point does not believe it will have a material impact on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurement*, defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008. The Company is currently evaluating the impact of the adoption of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides entities with an option to report certain financial assets and liabilities at fair value. If elected, subsequent changes in fair value would be reported in earnings and the Company would be required to make additional disclosures related to the election to use fair value reporting. It also requires the Company to display the fair value of those assets and liabilities on the face of the balance sheet for which the Company has elected to use fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 159 may have on its future consolidated financial statements

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

Reclassifications – Certain 2006 amounts have been reclassified where appropriate to conform with the financial statements presentation used in 2007. These reclassifications had no effect on previously reported net income.

Common Stock – The shareholders of Bancorp voted to increase the number of authorized shares from 500,000 to 2,500,000 at the 2007 annual shareholder meeting. During 2007, the Bancorp board of directors authorized a two-for-one stock split that increased the number of shares outstanding from 440,329 to 880,658.

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

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, 2007 and 2006 were approximately \$108,000 and \$95,000, 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, 2007 and 2006 are as follows:

	December 31, 2007			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government agencies	\$ 11,467,368	\$ 379,163	\$ -	\$ 11,846,531
Mortgage-backed securities	14,176,201	396	(281,315)	13,895,282
Obligations of states and political subdivisions	15,458,337	141,457	(70,185)	15,529,609
	\$ 41,101,906	\$ 521,016	\$ (351,500)	\$ 41,271,422

	December 31, 2006			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligation of U.S. Government agencies	\$ 12,893,795	\$ 122,501	\$ (36,713)	\$ 12,979,583
Mortgage-backed securities	21,676,375	419	(688,885)	20,987,909
Obligations of states and political subdivisions	12,085,830	122,046	(73,160)	12,134,716
	\$ 46,656,000	\$ 244,966	\$ (798,758)	\$ 46,102,208

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, 2007 and 2006 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, 2007					
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	-	-	13,878,398	(281,315)	13,878,398	(281,315)
Obligations of states and political subdivisions	4,486,891	(59,450)	2,661,967	(10,735)	7,148,858	(70,185)
Total	\$ 4,486,891	\$ (59,450)	\$ 16,540,365	\$ (292,050)	\$ 21,027,256	\$ (351,500)

	Securities in Unrealized Loss Positions as of December 31, 2006					
	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	\$ 1,478,850	\$ (10,351)	\$ 4,464,395	\$ (26,362)	\$ 5,943,245	\$ (36,713)
Mortgage-backed securities	-	-	20,912,186	(688,885)	20,912,186	(688,885)
Obligations of states and political subdivisions	1,256,770	(5,981)	4,362,889	(67,179)	5,619,659	(73,160)
Total	\$ 2,735,620	\$ (16,332)	\$ 29,739,470	\$ (782,426)	\$ 32,475,090	\$ (798,758)

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 will 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.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

The amortized cost and estimated fair value of investment securities at December 31, 2007 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	\$ 362,125	\$ 363,760
Due after one year through five years	13,017,184	13,299,255
Due after five years	13,545,971	13,712,700
Mortgage-backed securities	<u>14,176,626</u>	<u>13,895,707</u>
	<u>\$ 41,101,906</u>	<u>\$ 41,271,422</u>

During 2007 the Bank sold available-for-sale securities to provide funds to support loan growth. Total proceeds from the sales were \$5,288,689 with net realized losses of \$27,792. No investment securities were sold in 2006.

At December 31, 2007, investment securities with amortized costs of \$27,811,950 and estimated fair values of \$27,924,412 were pledged for public deposits, repurchase agreements and Federal Home Loan Bank borrowings (\$26,713,926 and \$26,477,134 in 2006, respectively).

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

4. **Loans:**

Major classifications of loans by type of collateral at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Commercial loans	\$ 19,839,304	\$ 14,293,042
Agriculture loans	30,061,236	30,789,234
Commercial Real Estate loans	26,602,931	19,467,702
Municipal loans	12,424,333	5,161,317
Real estate loans	56,936,109	47,122,640
Consumer loans	4,414,226	4,704,436
	<u>150,278,139</u>	121,538,371
Deferred loan origination fees	<u>(339,031)</u>	<u>(308,646)</u>
	<u>149,939,108</u>	121,229,725
Allowance for loan losses	<u>(1,665,028)</u>	<u>(1,446,348)</u>
	<u>\$ 148,274,080</u>	<u>\$ 119,783,377</u>

The loan portfolio at December 31, 2007 and 2006 includes \$95,080,851 and \$85,463,215, respectively, of loans which have a variable rate of interest. The December 31, 2007 amount includes \$39,560,723 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 \$1,933,785 and \$5,005,807 at December 31, 2007 and 2006, 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>
2007:			
Commercial	\$ -	\$ -	\$ 153,192
Commercial Real Estate	-	-	723,411
Real estate	-	4,408	110,257
	<u>\$ -</u>	<u>\$ 4,408</u>	<u>\$ 986,860</u>
2006:			
Commercial	\$ -	\$ -	\$ 166,393
Commercial Real Estate	46,431	-	-
Real estate	-	-	112,242
	<u>\$ 46,431</u>	<u>\$ -</u>	<u>\$ 278,635</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>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 1,446,348	\$ 1,196,266
Loans charged off	(24,891)	(13,241)
Provision charged to income	240,000	279,500
Recoveries credited to allowance	3,571	8,823
Transferred to liability for unfunded commitments	-	(25,000)
	<u>\$ 1,665,028</u>	<u>\$ 1,446,348</u>
Balance, end of year		

Restructured and other loans considered impaired, including all non-accrual loans, totaled \$1,426,266 and \$721,052 at December 31, 2007 and 2006, respectively. The specific valuation allowance for loan losses related to these impaired loans was \$100,486 and \$75,703 at December 31, 2007 and 2006, respectively. The average recorded investment in impaired loans was approximately \$449,300 and \$670,000 in 2007 and 2006, respectively. Interest income recognized on impaired loans totaled \$34,925 and \$51,958 in 2007 and 2006, respectively. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was approximately \$0 and \$1,333 in 2007 and 2006, respectively.

Concentration of Credit Risk – The Bank grants agricultural, commercial, consumer and mortgage loans to customers throughout Northeastern and Central 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. Credit losses from agricultural loans do 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>2007</u>	<u>2006</u>
Land	\$ 487,487	\$ 573,768
Buildings and improvements	5,458,702	4,954,347
Furniture and equipment	<u>2,859,786</u>	<u>2,762,030</u>
	8,805,975	8,290,145
Accumulated depreciation	<u>3,439,068</u>	<u>3,237,052</u>
	<u>\$ 5,366,907</u>	<u>\$ 5,053,093</u>

During 2007 the Bank began construction on a new branch building. The construction-in-process amounts paid during the year were \$746,458 and are included in buildings and improvements. At December 31, 2007 there is an estimated \$276,300 in capital expenditures remaining to complete the project that has not been included in property.

6. Core Deposit Intangible:

Core deposit intangible consists of the following:

	<u>2007</u>	<u>2006</u>
Purchase cost in 2003	\$ 2,109,512	\$ 2,109,512
Accumulated amortization	<u>1,090,633</u>	<u>859,491</u>
	<u>\$ 1,018,879</u>	<u>\$ 1,250,021</u>

Forecasted amortization for the next five years is as follows:

2008	\$ 210,450
2009	192,082
2010	175,740
2011	161,174
2012	148,166

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

7. Other Assets:

Other assets at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Cash value of life insurance (Note 12)	\$ 1,097,542	\$ 1,053,290
Prepaid expenses	238,505	298,768
Capitalized trust preferred securities issuance costs, net of \$96,000 and \$72,000 amortization in 2007 and 2006, respectively	24,000	48,000
Long-lived assets held-for-sale (former branch office), net of \$66,494 impairment loss in 2006	-	104,500
Investment in unconsolidated subsidiaries (Trusts) (Note 10)	217,000	217,000
Income tax deposits	98,209	-
Other items, net	39,274	61,956
	<u>\$ 1,714,530</u>	<u>\$ 1,783,514</u>

8. Deposits:

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

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 14,391,668	\$ 36,655,032
One to three years	30,296,986	6,264,499
Over three years	6,505,278	2,646,153
	<u>\$ 51,193,932</u>	<u>\$ 45,565,684</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

9. **Borrowings:**

Borrowings at December 31 consist of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Average Rate</u>	<u>Balance</u>	<u>Average Rate</u>	<u>Balance</u>
Repurchase Agreements	2.15%	\$ 5,387,552	2.00%	\$ 3,553,497
Federal Home Loan Bank:				
Cash Management Advances (overnight)	4.35%	11,500,000	-	-
Federal Funds with correspondent banks	4.95%	<u>35,000</u>	-	<u>-</u>
Total		<u>\$16,922,552</u>		<u>\$ 3,553,497</u>

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

At December 31, 2007, the Bank has additional credit available totaling approximately \$5,126,978 from the Federal Home Loan Bank of Seattle and \$15,965,000 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:

At of December 31, 2007, Bancorp has two wholly-owned trusts (“Trusts”) 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% (7.84% at December 31, 2007)	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, the Trusts have not been consolidated in these financial statements. The \$7,217,000 of Debentures issued to the Trusts as of December 31, 2007 are reflected as junior subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets (Note 7) in the consolidated balance sheets.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

11. Interest Expense:

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

	<u>2007</u>	<u>2006</u>
Savings and interest-bearing demand	\$ 1,928,374	\$ 2,265,985
Time deposits in excess of \$100,000	749,450	570,138
Other time deposits	<u>1,292,138</u>	<u>1,227,245</u>
Interest expense on deposits	3,969,962	4,063,368
Interest on junior subordinated debentures (Note 10)	527,342	515,066
Interest expense on short-term borrowings	<u>213,750</u>	<u>100,439</u>
Total interest expense	<u>\$ 4,711,054</u>	<u>\$ 4,678,873</u>

12. 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 \$187,978 and \$151,971 in 2007 and 2006, respectively.

The Bank has deferred compensation plans covering certain key current and former officers. At December 31, 2007 and 2006, the liabilities related to these plans included in the accompanying consolidated balance sheets totaled \$622,460 and \$588,166, respectively. During 2007 \$5,262 was paid in benefits (none in 2006). The amount of expense charged to income in 2007 and 2006 was \$39,556 and \$86,864, respectively. To assist in the funding of the plans, the Bank is owner and beneficiary of life insurance on the key current and former officers. The cash surrender value of these policies at December 31, 2007 and 2006, respectively, was \$1,097,542 and \$1,053,290, and is included in other assets (Note 7).

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

13. Other Expense:

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

	<u>2007</u>	<u>2006</u>
Supplies, printing and postage	\$ 251,488	\$ 242,295
Amortization of core deposit intangible (Note 6)	231,142	254,506
Other amortization	165,265	68,595
Advertising and public relations	252,550	249,130
Professional services and examination expense	168,441	171,741
Communications	73,095	69,071
Other noninterest expense	597,189	762,721
	<u>\$ 1,739,170</u>	<u>\$ 1,818,059</u>

14. Income Taxes:

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

	<u>2007</u>	<u>2006</u>
Currently payable:		
Federal	\$ 796,000	\$ 512,000
State	5,000	86,000
	<u>801,000</u>	<u>598,000</u>
Deferred:		
Federal	14,000	(129,000)
State	3,000	(27,000)
	<u>17,000</u>	<u>(156,000)</u>
	<u>\$ 818,000</u>	<u>\$ 442,000</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>2007</u>	<u>2006</u>
Tax on income at statutory rate (34%)	\$ 1,068,540	\$ 648,444
State income tax, net of federal benefit	3,470	57,592
Nontaxable interest income, net of allocable interest expense	(283,118)	(247,746)
Other	29,108	(16,290)
	<u>\$ 818,000</u>	<u>\$ 442,000</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

14. **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>2007</u>	<u>2006</u>
Deferred compensation not deducted for tax purposes	\$ (13,203)	\$ (33,443)
Loan origination costs	507	6,290
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	(84,192)	(105,907)
Depreciation and amortization	23,851	(68,428)
Vacation Pay	-	34,014
Other	90,037	11,474
	<u>\$ 17,000</u>	<u>\$ (156,000)</u>

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

	<u>2007</u>	<u>2006</u>
Assets:		
Allowance for loan losses	\$ 538,014	\$ 452,444
Deferred compensation	240,643	226,409
Excess book over tax depreciation, amortization and impairment charges	82,067	142,927
Purchased Oregon tax credits - adjusted cost (value of credits (\$707,960 at December 31, 2007))	474,333	-
Unrealized loss on investment securities available-for-sale	-	175,884
Total deferred tax assets	<u>1,335,057</u>	<u>997,664</u>
Liabilities:		
Unrealized gain on investment securities available-for-sale	57,635	-
Loan origination costs	59,215	53,140
Prepaid Expenses	41,305	68,435
Federal Home Loan Bank stock dividends	31,205	31,205
Total deferred tax liabilities	<u>189,360</u>	<u>152,780</u>
Net deferred tax assets	<u>\$ 1,145,697</u>	<u>\$ 844,884</u>

The company has unused purchased energy tax credits of \$707,960 as of December 31, 2007. These tax credits are expected to provide state income tax benefits of \$176,990 per year through 2011. Based on the Company's historical performance, these energy tax credits will be realized in the normal course of operations and, accordingly, Management has not reduced these deferred tax assets by a valuation allowance. Management also believes that all other net deferred tax assets will be recognized in the normal course of operations and, accordingly, they have not been reduced by a valuation allowance.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

15. 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>2007</u>	<u>2006</u>
Commitments to extend credit	\$ 38,659,700	\$ 36,756,356
Standby letters of credit and financial guarantees written	1,009,400	245,000

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

16. 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 \$1,814,445 and \$1,616,031 at December 31, 2007 and 2006, respectively. Activity with respect to these loans during the year ended December 31 was as follows:

	<u>2007</u>	<u>2006</u>
Balance, January 1	\$ 1,616,031	\$ 1,253,430
Additions or renewals	1,759,089	2,246,675
Amounts collected or renewed	<u>(1,560,675)</u>	<u>(1,884,074)</u>
Balance, December 31	<u>\$ 1,814,445</u>	<u>\$ 1,616,031</u>

In addition, there were \$543,152 and \$752,587 in commitments to extend credit to directors and officers at December 31, 2007 and 2006, respectively, which are included as part of commitments in Note 15.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

17. 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 are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 6,186,351	\$ 6,186,351	\$ 7,162,290	\$ 7,162,290
Securities	41,271,422	41,271,422	46,102,208	46,102,208
Loans, net of allowance for loan losses	148,274,080	151,618,398	119,783,377	117,106,458
Interest receivable	2,098,348	2,098,348	1,836,434	1,836,434
Federal Home Loan Bank stock	559,700	559,700	559,700	559,700
Financial liabilities:				
Deposits	170,160,204	170,353,698	162,453,911	162,502,346
Repurchase agreements	16,922,552	16,922,552	3,553,497	3,553,497
Junior subordinated debentures	7,217,000	7,172,379	7,217,000	7,037,945
Accrued interest payable	322,339	322,339	298,803	298,803

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

17. Fair Value Disclosures of Financial Instruments, Continued:

Repurchase agreements – 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.

18. 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, 2007, that Bancorp and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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

18. **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. The FRB allows the inclusion of trust preferred securities in Tier 1 capital, within 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, 2007:						
Total capital (to risk-weighted assets)	\$ 19,239	11.00%	\$ 13,991	8%	\$ 17,489	10%
Tier I capital (to risk-weighted assets)	14,406	8.24%	6,996	4%	10,493	6%
Tier I capital (to leverage assets)	14,406	7.14%	8,071	4%	10,089	5%
As of December 31, 2006:						
Total capital (to risk-weighted assets)	\$ 16,887	11.78%	\$ 11,466	8%	\$ 14,332	10%
Tier I capital (to risk-weighted assets)	11,659	8.13%	5,733	4%	8,599	6%
Tier I capital (to leverage assets)	11,659	6.21%	7,512	4%	9,390	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, 2007:						
Total capital (to risk-weighted assets)	\$ 19,235	11.00%	\$ 13,995	8%	\$ 17,494	10%
Tier I capital (to risk-weighted assets)	17,545	10.03%	6,998	4%	10,497	6%
Tier I capital (to leverage assets)	17,545	8.70%	8,068	4%	10,086	5%
As of December 31, 2006:						
Total capital (to risk-weighted assets)	\$ 16,808	11.73%	\$ 11,470	8%	\$ 14,337	10%
Tier I capital (to risk-weighted assets)	15,337	10.70%	5,735	4%	8,602	6%
Tier I capital (to leverage assets)	15,337	8.17%	7,508	4%	9,385	5%

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

19. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2007	2006
Assets:		
Cash, deposited with the Bank	\$ 1,194	\$ 51,216
Investments in:		
Bank subsidiary	18,675,309	16,271,672
Nonbank subsidiaries (Trusts)	217,000	217,000
Trust preferred securities issuance costs, net of amortization	24,000	48,000
	\$ 18,917,503	\$ 16,587,888
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	\$ 20,297	\$ 20,891
Junior subordinated debentures (Trusts)	7,217,000	7,217,000
Total liabilities	7,237,297	7,237,891
Stockholders' equity:		
Common stock	2,201,645	2,201,645
Surplus	1,486,546	1,486,546
Retained earnings and accumulated other comprehensive income	7,992,015	5,661,806
Total stockholders' equity	11,680,206	9,349,997
Total liabilities and stockholders' equity	\$ 18,917,503	\$ 16,587,888

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

STATEMENTS OF INCOME

	Year Ended December 31	
	2007	2006
Cash dividends from Bank	774,335	\$ 330,247
Less:		
Interest expense	(527,342)	(515,066)
Professional fees and administrative expenses	(48,061)	(26,632)
Amortization of trust preferred securities issuance costs	(24,000)	(24,000)
	174,932	(235,451)
Income before equity in undistributed earnings of the Bank		
Equity in undistributed earnings of Bank	1,913,849	1,484,640
Credit for income taxes	236,000	216,000
	\$ 2,324,781	\$ 1,465,189
Net income		

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2007	2006
Operating activities:		
Net income	\$ 2,324,781	\$ 1,465,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	(1,913,849)	(1,484,640)
Amortization of trust preferred securities issuance costs	24,000	24,000
Accrued interest payable	(594)	2,787
	434,338	7,336
Net cash from operating activities		
Financing activities:		
Dividends paid	(484,361)	(330,247)
	(484,361)	(330,247)
Net cash from financing activities		
Net decrease in cash	(50,023)	(322,911)
Cash, beginning of year	51,216	374,127
Cash, end of year	\$ 1,193	\$ 51,216