

BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditors' Report

Years Ended December 31, 2010 and 2009

**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

C O N T E N T S

	<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	8-9
Notes to Consolidated Financial Statements	10-34

BEOBANCORP

P.O. Box 39 • Heppner, OR 97836 • Administrative Office: 279 N. Main • Heppner, OR 97836 • Phone: (541)676-0201

Message to our stockholders

I am pleased to present to you the financial statements and operating results of BEO Bancorp and Bank of Eastern Oregon for 2010. The economic climate and the banking industry as a whole continue to pose challenges as the national and regional economy continues to deal with the lingering effects of the “Great Recession”.

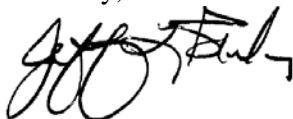
While 2010 had some unique challenges overall performance was dramatically improved from 2009. Consolidated after tax net income for BEO Bancorp in 2010 was \$1,656,016 up 328.2% from 2009. Return on Average Assets for 2010 was 0.67% compared to 0.17% in 2009. Return on Average equity was 11.0% in 2010 vs. 2.75% in 2009. Net earnings per share were \$1.80 compared to \$0.43 in 2009. These numbers not only compare nicely year over year from an internal perspective, they also compare quite favorable to peer institutions across the country. The primary difference between 2009 and 2010 is decreased expenses associated with loan loss provision and write down of other real estate owned. In 2010 the amount totaled \$1,526,575 down 71.9% from 2009 levels. In addition, bank profitability is fueled by a low cost of funds and a net interest margin that is above the 90th percentile of all banks nationally.

Your Bank continued to experience steady and managed growth in 2010. Stockholders’ equity growth was strong going from \$14,485,266 to \$15,637,637 an increase of 7.96%. Capital growth most importantly added to Bank of Eastern Oregon’s soundness where the regulatory Tier 1 capital ratio improved from 9.52% at December 31, 2009 to 10.17% at December 31, 2010. Total assets were at \$251,733,947 up 4.96% year over year; deposits set another all time high of \$223,570,220 up 9.37% from 2009. Net loans also increased 13.92% to \$191,811,863. We are pleased with the growth statistics and are appreciative of the confidence placed in our institution by our customers. The overall growth for your Bank is once again indicative of the effort put forth by our employees to provide the best service and product mix to our customers. We have a knowledgeable and professional staff that truly cares about our customers and our rural eastern Oregon communities. I am grateful for their dedication and daily efforts.

I am also grateful to all shareholders, employees and community members that were instrumental in Bank of Eastern Oregon’s efforts to stave off the unsolicited offer to purchase the Bank in 2010.

I cordially invite you to attend our annual meeting of shareholders where we will discuss updates to the Articles of Incorporation, elect directors, further discuss 2010 results and look forward to 2011. We will meet on Tuesday, April 26, 2011 at 2:00 pm at St. Patrick’s parish hall in Heppner OR. Please note the change in time of **2:00 pm**.

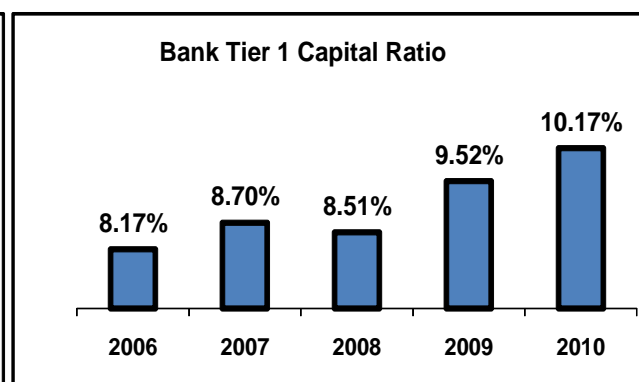
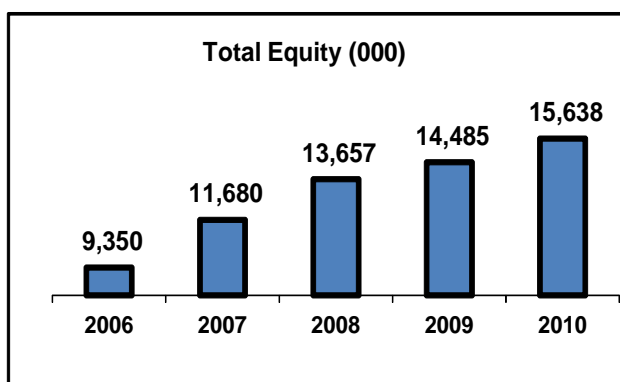
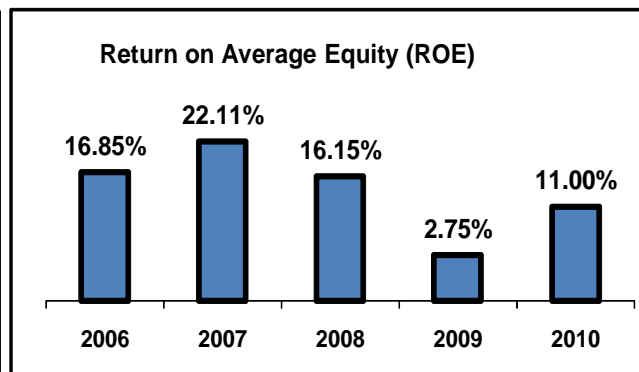
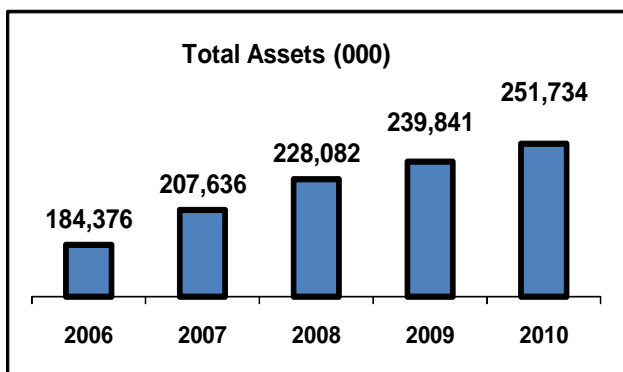
Sincerely,



Jeff L. Bailey
President and CEO
BEO Bancorp

FINANCIAL HIGHLIGHTS 2006-2010

	2006	2007	2008	2009	2010
Return on Average Assets	0.80%	1.19%	0.94%	0.17%	0.67%
Return on Average Equity	16.85%	22.11%	16.15%	2.75%	11.00%
Net Income	\$ 1,465,189	\$ 2,324,781	\$ 2,046,579	\$ 386,721	\$ 1,656,016
Net Income Per Share	\$ 1.66	\$ 2.64	\$ 2.32	\$ 0.43	\$ 1.80
Total Equity (000)	\$ 9,350	\$ 11,680	\$ 13,657	\$ 14,485	\$ 15,638
Total Assets (000)	\$ 184,376	\$ 207,636	\$ 228,082	\$ 239,841	\$ 251,734
Bank Tier 1 Capital Ratio	8.17%	8.70%	8.51%	9.52%	10.17%



Board of Directors

December 31, 2010

Bradley B Anderson, Chairman
Farmer/Rancher

Robert M Armstrong, Vice Chairman
Certified Public Accountant

Joel Peterson
Farmer

Ned E Clark
Rancher

Gary Neal
General Manager, Port of Morrow

Linda LaRue
Retired Banker

E. George Koffler
Chief Credit Officer
Bank of Eastern Oregon

Jeff L Bailey
President, Chief Executive Officer
Bank of Eastern Oregon

Executive Officers

Jeff L Bailey, President and Chief Executive Officer

E. George Koffler, Executive Vice President and Chief Credit Officer

Mark D Lemmon, Executive Vice President and Chief Financial Officer

Gary L Propheeter, Executive Vice President and Chief Operations Officer

Vice Presidents

John Bailey, Commercial Loan Officer

James Gardner, Commercial Loan Officer

Tricia Gunderson, Human Resources Manager

Becky Kindle, Branch Administrator

Melissa Lindsay, Mortgage Division Manager

Kevin McCabe, Information Systems Manager

John Qualls, Regional Director of Lending

Robert Quinton, Commercial Loan Officer

Edward C Rollins, Regional Director of Lending

Robert Williams, Commercial Loan Officer

Assistant Vice Presidents

Christy Correa, Finance Coordinator

Janet Dezellem, Finance Officer

Dawna Dougherty, Compliance Officer

Joyce Moser, Mortgage Loan Officer

Jill Pambrun, Commercial Loan Officer

Janice Provencher, John Day Branch Manager

Rhonda Shaffer, Commercial Loan Officer

Sheryl A Walters, Arlington Branch Manager



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, 2010 and 2009, 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, 2010 and 2009, 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
March 8, 2011

**BEO Bancorp and Subsidiary
Consolidated Balance Sheets**

	December 31	
	2010	2009
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 2,153,204	\$ 2,224,241
Interest bearing deposits at other financial institutions	10,210,013	14,132,511
Federal funds sold	3,060,000	5,275,000
	15,423,217	21,631,752
Total cash and cash equivalents		
Investment securities available-for-sale	25,728,024	32,262,474
Loans, less allowance for loan losses	191,811,863	168,378,695
Interest receivable	2,406,718	2,308,102
Federal Home Loan Bank stock	559,700	559,700
Property, less accumulated depreciation	7,003,803	6,574,901
Core deposit intangible, less accumulated amortization	440,607	616,347
Deferred taxes, net	1,379,945	1,319,432
Other assets	6,980,070	6,189,952
	236,310,730	218,209,603
Total assets	\$ 251,733,947	\$ 239,841,355
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 43,707,970	\$ 36,146,113
Savings and interest-bearing demand	112,267,127	100,682,528
Time, \$100,000 and over	19,168,248	17,913,575
Other time	48,426,875	49,667,132
	223,570,220	204,409,348
Other Borrowings	-	10,000,000
Subordinated debentures	11,322,000	9,947,000
Interest payable	151,118	234,061
Other liabilities	1,052,972	765,680
	236,096,310	225,356,089
Total liabilities		
Stockholders' equity:		
Common stock, \$5 par value; 2,500,000 shares authorized		
922,118 outstanding 2010, 899,670 outstanding 2009	2,408,945	2,296,705
Additional paid-in capital	1,690,193	1,598,673
Retained earnings	11,388,730	9,917,138
Accumulated other comprehensive income	149,769	672,750
	15,637,637	14,485,266
Total stockholders' equity		
Total liabilities and stockholders' equity	\$ 251,733,947	\$ 239,841,355

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

BEO Bancorp and Subsidiary Consolidated Statements of Income

	Year Ended December 31	
	2010	2009
Interest income:		
Interest and fees on loans:		
Taxable	\$ 12,177,196	\$ 12,183,817
Nontaxable	403,059	817,294
Interest on investment securities:		
Taxable	621,230	893,375
Nontaxable	294,436	383,921
Interest on federal funds sold and short-term time deposits	41,017	9,249
	13,536,938	14,287,656
Interest expense	2,252,988	2,759,192
Net interest income	11,283,950	11,528,464
Provision for loan losses	1,265,000	4,157,859
Net interest income after provision for loan losses	10,018,950	7,370,605
Noninterest income:		
Service charges	1,494,987	1,583,165
Mortgage banking income	323,090	341,018
Gain on sales of available-for-sale securities, net	534,586	29,502
Other	148,072	378,989
	2,500,735	2,332,674
Noninterest expense:		
Salaries and employee benefits	5,484,055	4,894,257
Occupancy expense	636,998	585,604
Equipment expense	733,245	687,058
Write downs of foreclosed assets	261,575	1,275,304
Prepayment fees on early extinguishment of borrowings	553,880	-
Other	2,496,916	2,228,335
	10,166,669	9,670,558
Income before income taxes	2,353,016	32,721
Provision (benefit) for income taxes	697,000	(354,000)
Net income	\$ 1,656,016	\$ 386,721
Earnings per share	\$ 1.80	\$.43

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, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2009	\$ 2,201,645	\$ 1,486,546	\$ 9,530,417	\$ 438,124	\$13,656,732
Issuance of 19,012 shares	95,060	112,127			207,187
Net income			386,721		386,721
Other comprehensive income (loss):					
Reclassification of gains realized on sale of investment securities				(29,501)	
Unrealized gains on investment securities				337,578	
Deferred income taxes				(73,451)	
Total other				234,626	234,626
Comprehensive income					621,347
Balance, December 31, 2009	2,296,705	1,598,673	9,917,138	672,750	14,485,266
Issuance of 22,448 shares	112,240	91,520			203,760
Net income			1,656,016		1,656,016
Other comprehensive income (loss):					
Reclassification of gains realized on sale of investment securities				(534,586)	
Unrealized gains (losses) on investment securities				(257,810)	
Deferred income taxes				269,415	
Total other				(522,981)	(522,981)
Comprehensive income					1,133,035
Cash dividends (\$.20 per share)			(184,424)		(184,424)
Balance, December 31, 2010	\$ 2,408,945	\$ 1,690,193	\$ 11,388,730	\$ 149,769	\$15,637,637

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	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 1,656,016	\$ 386,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	459,030	449,497
Net gains or losses on property dispositions	14,852	(232,551)
Net gains or losses on sales of investment securities	(534,586)	(29,502)
Prepayment fees on early extinguishment of borrowings	553,880	-
Amortization of investment premiums, net	92,337	90,920
Amortization of core deposit intangible and organization expenses	186,418	214,706
Issuance of stock for services and fees	105,600	70,400
Provision for loan losses	1,265,000	4,157,859
Write down of foreclosed assets	261,575	1,275,304
Increase in cash value of life insurance	(44,550)	(46,613)
Deferred income taxes	209,000	137,000
Change in:		
Interest receivable and other assets	1,010,496	(2,581,501)
Deferred loan fees	90,703	(250,658)
Accrued interest and other liabilities	204,349	(371,722)
Income taxes payable	-	(90,674)
Net cash provided (used) by operating activities	5,530,120	3,108,786
Cash flows from investing activities:		
Proceeds from maturities of investment securities	15,864,388	6,608,449
Proceeds from sale of available-for-sale securities	12,214,797	1,831,902
Purchase of investment securities	(21,894,646)	(7,033,486)
Purchase of loans	(10,730,536)	(3,966,531)
Proceeds from sale of loans	-	5,404,132
Purchase of bank owned life insurance	(2,750,000)	-
Proceeds from sale of foreclosed assets	2,057,006	741,033
Loans originated, net of principal collected	(15,498,710)	(62,842)
Purchases of property	(896,682)	(1,147,476)
Net cash provided (used) in investing activities	(21,634,383)	2,375,181
Cash flows from financing activities:		
Other Borrowings	(10,553,880)	(6,700,704)
Net increase in deposits	19,160,872	15,451,490
Proceeds from issuance of subordinated debt	1,375,000	2,730,000
Issuance of Common Stock	98,160	136,787
Dividends paid	(184,424)	-
Net cash provided by financing activities	9,895,728	11,687,973
Net increase (decrease) in cash and cash equivalents	(6,208,535)	17,171,940
Cash and cash equivalents, beginning of year	21,631,752	4,459,812
Cash and cash equivalents, end of year	\$ 15,423,217	\$21,631,752

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

BEO Bancorp and Subsidiary
Consolidated Statements of Cash Flows, Continued

	Year Ended December 31	
	2010	2009
Supplemental information:		
Cash paid during the year for:		
Income taxes	\$ 100,052	\$ 460,443
Interest	2,335,931	2,789,070
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	(522,981)	234,626
Transfer of loans to foreclosed assets	1,440,375	2,300,378

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 ASC 810 the accounts and transactions of these trusts are not consolidated 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 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.

Financial Statement Presentation – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates. The Company has evaluated subsequent events through March 8, 2011, the date the financial statements are available for distribution. Certain prior year amounts may have been reclassified to conform to the current year presentation.

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 interest bearing deposits and federal funds sold on a short-term basis and may exceed amounts insured by FDIC.

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, 2010 or 2009.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, net of deferred loan origination fees, premiums or discounts on purchased loans, 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. Cash receipts on non-accrual loans are first recorded as principal collections. Loan origination fees, net of associated direct costs, if significant, are amortized by the interest method over the contractual life of the loan. Premiums and discounts on loans purchased are amortized using the straight line method over a period management believes best matches the cash flow and risks associated with 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 for 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 a restricted investment carried at cost, which is based on the ultimate recoverability at par value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on borrowings. At December 31, 2010, the minimum required investment was \$116,000. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are at the discretion of the FHLB.

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 through 2013, with periodic evaluation for impairment.

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 based on current appraisals, 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. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some of the potential deferred tax asset will not be recognized.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

Uncertain tax positions are accounted for in accordance with ASC 740 which prescribes recognition and measurement standards for uncertain income tax positions. The Standard provides guidance on recognition, derecognition, interest, penalties and disclosure. There is no material impact of potential tax uncertainties on Bancorp's financial condition or results of operations at December 31, 2010.

Fair Value – Bancorp applies the hierarchy and framework for measuring fair value, and expanded disclosure about fair value measurements and the reliability of valuation inputs as provided in ASC 820. When determining the fair value, Bancorp considers the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Company's financial instruments fall within Levels 2 and 3.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

Recently Issued Accounting Pronouncements – In July 2010, FASB issued an Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The objective of this update is to provide greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. This update is effective for the Company for the year ended December 31, 2011.

In January 2010 FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures, Improving Disclosures about Fair Value Measurements*. The objective of this statement was to increase the transparency in financial reporting of *Fair Value Measurement*. Part of this update became effective for the year ended December 31, 2010 the remainder will be effective for the Company for the year ended December 31, 2011.

Bancorp is currently evaluating the impact that the amendments, effective in 2011, will have on its future 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.

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, 2010 and 2009 were approximately \$259,000 and \$73,000, 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, 2010 and 2009 are as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	\$ 11,486,122	\$ 277,947	\$ (92,459)	\$ 11,671,610
Government guaranteed loan pools	7,526,406	53,116	(26,344)	7,553,178
Mortgage-backed securities	2,123,637	113,068	-	2,236,705
Obligations of municipal entities	4,364,938	52,837	(151,244)	4,266,531
	\$ 25,501,103	\$ 496,968	\$ (270,047)	\$ 25,728,024

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	\$ 11,484,308	\$ 437,692	\$ (527)	\$ 11,921,473
Government guaranteed loan pools	2,529,949	-	(29,870)	2,500,079
Mortgage-backed securities	8,772,793	363,619	(24)	9,136,388
Obligations of municipal entities	8,456,104	253,203	(4,773)	8,704,534
	\$ 31,243,154	\$ 1,054,514	\$ (35,194)	\$ 32,262,474

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, 2010 and 2009 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, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies	\$ 6,909,845	\$ (92,458)	\$ -	\$ -	\$ 6,909,845	\$ (92,458)
Government guaranteed loan pools	1,507,439	(23,535)	1,083,742	(2,808)	2,591,181	(26,343)
Mortgage-backed securities	-	-	-	-	-	-
Obligations of municipal entities	1,103,642	(51,299)	1,095,974	(99,946)	2,199,616	(151,245)
Total	<u>\$ 9,520,926</u>	<u>\$ (167,292)</u>	<u>\$ 2,179,716</u>	<u>\$ (102,754)</u>	<u>\$ 11,700,642</u>	<u>\$ (270,046)</u>

	Securities in Unrealized Loss Positions as of December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies	\$ 499,473	\$ (527)	\$ -	\$ -	\$ 499,473	\$ (527)
Government guaranteed loan pools	2,486,970	(29,870)	-	-	2,486,970	(29,870)
Mortgage-backed securities	-	-	17,316	(24)	17,316	(24)
Obligations of municipal entities	1,191,401	(4,774)	-	-	1,191,401	(4,774)
Total	<u>\$ 4,177,844</u>	<u>\$ (35,171)</u>	<u>\$ 17,316</u>	<u>\$ (24)</u>	<u>\$ 4,195,160</u>	<u>\$ (35,195)</u>

The unrealized losses on investment 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, 2010 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	\$ 1,344,631	\$ 1,355,613
Due after one year through five years	9,567,665	9,854,601
Due after five years	12,465,170	12,281,105
Mortgage-backed securities	<u>2,123,637</u>	<u>2,236,705</u>
	<u>\$25,501,103</u>	<u>\$25,728,024</u>

During 2010 and 2009 the Bank sold available-for-sale securities to provide funds to support loan growth and pay down FHLB debt. Total proceeds from the sales were \$12,214,797 and \$1,831,902 with net realized gains of \$534,586 and \$29,502 in 2010 and in 2009 respectively. The proceeds from the sales in 2010 were utilized to pay the principal and prepayment fees on early extinguishment of FHLB borrowings.

At December 31, 2010, investment securities with amortized costs of \$14,744,673 and estimated fair values of \$14,918,590 were pledged for public deposits and Federal Home Loan Bank borrowings (\$11,406,432 and \$11,855,841 in 2009, 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>2010</u>	<u>2009</u>
Government guaranteed loans	\$ 13,777,134	\$ 2,204,715
Commercial loans	17,151,806	17,935,197
Agriculture loans	40,715,492	35,951,722
Commercial real estate loans	32,506,793	34,090,198
Municipal loans	8,206,301	5,883,689
Real estate loans	79,548,517	71,743,699
Consumer loans	3,422,024	4,452,908
	195,328,067	172,262,128
Deferred loan origination fees	(540,402)	(449,699)
	194,787,665	171,812,429
Allowance for loan losses	(2,975,802)	(3,433,734)
	<u>\$ 191,811,863</u>	<u>\$ 168,378,695</u>

The loan portfolio at December 31, 2010 and 2009 includes \$145,927,354 and \$124,179,648, respectively, of loans which have a variable rate of interest. The December 31, 2010 amount includes \$120,696,568 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 \$7,757,912 and \$7,490,985 at December 31, 2010 and 2009, 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>
2010			
Commercial	\$ 60,687	\$ -	\$ -
Commercial real estate	2,441,202	-	1,551,042
Real estate	-	-	343,181
	<u>\$ 2,501,889</u>	<u>\$ -</u>	<u>\$ 1,894,223</u>
2009			
Commercial	\$ 77,422	\$ 10,699	\$ -
Commercial real estate	3,301,836	-	-
Real estate	1,192,881	-	-
	<u>\$ 4,572,139</u>	<u>\$ 10,699</u>	<u>\$ -</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>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 3,433,734	\$ 3,635,074
Loans charged off	(1,743,091)	(4,459,548)
Provision charged to income	1,265,000	4,157,859
Recoveries credited to allowance	<u>20,159</u>	<u>100,349</u>
Balance, end of year	<u>\$ 2,975,802</u>	<u>\$ 3,433,734</u>

Restructured and other loans considered impaired, including all non-accrual loans, totaled \$7,220,345 and \$10,656,513 at December 31, 2010 and 2009, respectively. The specific valuation allowance for loan losses related to these impaired loans was \$284,013 and \$308,792 at December 31, 2010 and 2009, respectively. The average recorded investment in impaired loans was approximately \$8,449,938 and \$13,193,175 in 2010 and 2009, respectively. Interest income recognized on impaired loans totaled \$395,438 and \$465,974 in 2010 and 2009 respectively. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was approximately \$286,831 and \$336,105 in 2010 and 2009, respectively.

Concentration of Credit Risk – The Bank grants agricultural, commercial, consumer and mortgage loans to customers throughout Northeastern Oregon. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent upon the region’s agribusiness economic sector. Credit losses from agricultural loans historically have been less than losses 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>2010</u>	<u>2009</u>
Land	\$ 762,238	\$ 762,238
Buildings and improvements	7,321,410	6,738,695
Furniture and equipment	<u>3,393,217</u>	<u>3,190,953</u>
	11,476,865	10,691,886
Accumulated depreciation	<u>4,473,062</u>	<u>4,116,985</u>
	<u>\$ 7,003,803</u>	<u>\$ 6,574,901</u>

6. Core Deposit Intangible:

Core deposit intangible consists of the following:

	<u>2010</u>	<u>2009</u>
Purchase cost in 2003	\$ 2,109,512	\$ 2,109,512
Accumulated amortization	<u>1,668,905</u>	<u>1,493,165</u>
	<u>\$ 440,607</u>	<u>\$ 616,347</u>

Forecasted amortization for the next three years, after which it will be fully amortized, is as follows:

2011	161,174
2012	148,166
2013	131,267

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

7. Other Assets:

Other assets at December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Cash value of life insurance (Note 12)	\$ 3,981,931	\$ 1,187,381
Prepaid expenses	1,640,214	1,989,007
Capitalized subordinated debt issuance costs, net of \$130,000 and \$120,000 amortization in 2010 and 2009, respectively	40,000	47,119
Foreclosed Assets	983,951	1,868,259
Investment in unconsolidated subsidiaries (Trusts) (Note 10)	217,000	217,000
Income tax deposits	107,936	863,769
Other items, net	9,038	17,417
	<u>\$ 6,980,070</u>	<u>\$ 6,189,952</u>

8. Deposits:

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

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 58,090,997	\$ 54,393,182
One to three years	6,499,547	11,459,953
Over three years	3,004,579	1,727,572
	<u>\$ 67,595,123</u>	<u>\$ 67,580,707</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

9. Borrowings:

The Bank's borrowings from the Federal Home Loan Bank of Seattle outstanding at December 31, 2009 were retired during 2010 with proceeds from the sale of investment securities (see Note 3).

At December 31, 2010, the Bank has unused credit available totaling approximately \$32,520,000 from the Federal Home Loan Bank of Seattle, \$20,000,000 of federal funds lines with correspondent banks and \$5,000,000 with the Federal Reserve Bank of San Francisco.

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

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

10. Subordinated Debentures:

As of December 31, 2010, Bancorp had two wholly-owned trusts (“Trusts”) that were formed to issue trust preferred securities and related common securities. The Trusts issued Capital Securities (“Trust Preferred Securities”) and invested the proceeds in a like amount of Junior Subordinated Debentures (“Debentures”) of BEO Bancorp. Interest distributions on the Trust Preferred Securities are payable quarterly and are deferrable, at Bancorp’s option, for up to five years. The Debentures bear the same terms and interest rates as the related Trust Preferred Securities. The Debentures are the sole assets of the Trusts. Bancorp has unconditionally guaranteed all of the obligations of the Trusts.

Following are the terms of the Trust Preferred Securities:

	<u>BEO Statutory Trust I</u>	<u>BEO Statutory Trust II</u>
Amount outstanding	\$4,124,000	\$3,093,000
Date of original issue	December 17, 2003	March 17, 2005
Stated maturity	December 17, 2033	March 17, 2035
Optional redemption date	Began December 17, 2008	Began March 17, 2010
Interest rate	3-month LIBOR plus 2.85% (3.15% at December 31, 2010)	3-month LIBOR plus 1.90% (2.20% at December 31, 2010)

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 ASC 810 the Trusts have not been consolidated in these financial statements. The \$7,217,000 of Debentures issued to the Trusts as of December 31, 2010 is reflected as 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.

In December 2009 and March 2010 Bancorp issued a total of \$4,105,000 in 7% 5-year Callable Convertible Subordinated Notes (“Notes”) in a private offering with the primary purpose of providing capital to the Bank. The Notes mature December 28, 2014. Interest is payable quarterly on the first day of the first month following the end of each calendar quarter. Bancorp may defer interest payments for up to four consecutive quarters or eight total quarters over the term of the Notes. The Notes may be called or converted to common shares after the second anniversary date. The conversion price is \$8.70 per share. The Notes rank senior in right of repayment to the Debentures described above.

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>2010</u>	<u>2009</u>
Savings and interest-bearing demand	\$ 459,077	\$ 687,614
Time deposits in excess of \$100,000	555,563	591,730
Other time deposits	<u>636,547</u>	<u>813,719</u>
Interest expense on deposits	1,651,187	2,093,063
Subordinated debentures (Note 10)	503,958	343,594
Short-term borrowings	<u>97,843</u>	<u>322,535</u>
Total interest expense	<u>\$ 2,252,988</u>	<u>\$ 2,759,192</u>

12. Benefit Plans:

The Bank has a 401(k) and profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. Employer profit sharing contributions may be invested in BEO Bancorp common stock. Employer contributions were \$410,023 and \$253,150 in 2010 and 2009, respectively. Of the contributions made in 2010, \$150,000 represented an advance on 2011 profit sharing contributions and are included in prepaid expenses at December 31, 2010. During 2010 and 2009 the plan purchased 31,298 and 13,617 shares of BEO Bancorp stock from Bancorp and others at a cumulative purchase price of \$306,341 and \$157,434.

The Bank is beneficiary of bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. At December 31, 2010 and 2009, the Bank recorded a salary continuation benefit obligation of \$650,859 and \$671,366, respectively. During 2010 and 2009 \$72,471 and \$48,610 was paid in benefits and the amount of expense charged to income was \$48,307 and \$54,540, respectively. The Bank purchased additional BOLI totaling \$2,750,000 during 2010 for other employees. The cash surrender value of BOLI at December 31, 2010 and 2009, respectively, was \$3,981,931 and \$1,187,381, 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>2010</u>	<u>2009</u>
Supplies, printing and postage	\$ 228,086	\$ 223,483
Amortization of core deposit intangible (Note 6)	175,740	192,082
Other amortization	10,678	22,624
Advertising and public relations	199,568	200,410
Professional services and examination expense	165,139	140,411
Communications	68,632	68,858
Other noninterest expense	<u>1,649,073</u>	<u>1,380,467</u>
	<u>\$ 2,496,916</u>	<u>\$ 2,228,335</u>

14. Income Taxes:

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

	<u>2010</u>	<u>2009</u>
Currently payable (refundable):		
Federal	\$ 473,258	\$ (505,742)
State	<u>14,742</u>	<u>14,742</u>
	<u>488,000</u>	<u>(491,000)</u>
Deferred:		
Federal	167,000	109,000
State	<u>42,000</u>	<u>28,000</u>
	<u>209,000</u>	<u>137,000</u>
	<u>\$ 697,000</u>	<u>\$ (354,000)</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>2010</u>	<u>2009</u>
Tax on income at federal statutory rate (34%)	\$ 800,026	\$ 11,123
State income tax, net of federal benefit	118,000	9,900
Nontaxable interest income, net of allocable interest expense	<u>(303,284)</u>	<u>(389,087)</u>
Deferred rate difference	<u>82,258</u>	<u>14,064</u>
	<u>\$ 697,000</u>	<u>\$ (354,000)</u>

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

14. **Income Taxes, Continued:**

The provision for deferred income taxes 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>2010</u>	<u>2009</u>
Deferred compensation not deducted for tax purposes	\$ 8,048	\$ (2,327)
Loan origination costs	5,434	2,597
Loan loss deduction for tax purposes more than provision for financial reporting purposes	316,800	331,783
Depreciation and amortization	(18,725)	(73,288)
Deferred rate difference	<u>(102,557)</u>	<u>(121,765)</u>
	<u>\$ 209,000</u>	<u>\$ 137,000</u>

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

	<u>2010</u>	<u>2009</u>
Assets:		
Allowance for loan losses	\$ 1,055,353	\$ 1,152,245
Deferred compensation	255,030	260,078
Excess book over tax depreciation, amortization and impairment charges	159,804	141,078
Foreclosed assets basis difference	78,394	60,895
Purchased Oregon tax credits - adjusted cost	<u>118,584</u>	<u>237,167</u>
Total deferred tax assets	<u>1,667,165</u>	<u>1,851,463</u>
Liabilities:		
Unrealized gain on investment securities available-for-sale	77,153	346,568
Loan origination costs	94,731	89,297
Prepaid Expenses	83,408	64,238
Federal Home Loan Bank stock dividends	<u>31,928</u>	<u>31,928</u>
Total deferred tax liabilities	<u>287,220</u>	<u>532,031</u>
Net deferred tax assets	<u>\$ 1,379,945</u>	<u>\$ 1,319,432</u>

Bancorp has unused purchased Oregon energy tax credits of \$437,650 as of December 31, 2010 expiring through 2016. Based on Bancorp's historical performance, Management believes that these energy tax credits and all 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>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 36,543,280	\$ 36,591,361
Standby letters of credit and financial guarantees written	1,060,000	1,050,000

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. Activity with respect to these loans during the year ended December 31 was as follows:

	2010	2009
Balance, January 1	\$ 1,689,011	\$ 1,598,352
Additions or renewals	1,614,907	1,442,307
Amounts collected or renewed	<u>(1,651,965)</u>	<u>(1,351,648)</u>
Balance, December 31	<u>\$ 1,651,953</u>	<u>\$ 1,689,011</u>

In addition, there were \$937,364 and \$947,269 in commitments to extend credit to directors and officers at December 31, 2010 and 2009, 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 ASC 825. 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:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 15,423,217	\$15,423,217	\$21,631,752	\$21,631,752
Securities	25,728,024	25,728,024	32,262,474	32,262,474
Loans, net of allowance for loan losses	191,811,863	193,848,888	168,378,695	171,160,797
Interest receivable	2,406,718	2,406,718	2,308,102	2,308,102
Federal Home Loan Bank stock	559,700	559,700	559,700	559,700
Financial liabilities:				
Deposits	223,570,220	224,217,366	204,409,348	204,958,194
Other Borrowings	-	-	10,000,000	10,507,000
Trust Preferred Securities	7,217,000	2,677,580	7,217,000	4,297,575
Subordinated Debentures	4,105,000	4,105,000	2,730,000	2,730,000
Accrued interest payable	151,118	151,118	234,061	234,061

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. Impaired loans' fair values are estimated primarily at collateral values and consider credit risk.

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. 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:

Subordinated debentures – The fair value is estimated discounting future cash flow at rates currently available for debt with similar terms and maturities.

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

The following table presents the Company’s fair value hierarchy for those assets and liabilities measured at fair value:

	<u>Fair Value Measurements Using</u>				Total Period Losses Included in Earnings
	Quoted Prices in Active Markets for Identical Assets Total	Significant Other Observable Inputs (Level II)	Significant Unobservab le Inputs (Level III)	Total	
<u>December 31, 2010</u>					
Recurring items:					
Investment securities available for sale	<u>\$ 25,728,024</u>	-	<u>\$ 25,728,024</u>	-	
Non-recurring items:					
Impaired loans net of reserves	\$ 6,936,332	-	-	\$ 6,936,332	\$ 927,226
Foreclosed assets	<u>983,951</u>	-	-	<u>983,951</u>	216,985
Total assets measured at fair value on a non-recurring basis	<u>\$ 7,920,283</u>	-	-	<u>\$ 7,920,283</u>	
<u>December 31, 2009</u>					
Recurring items:					
Investment securities available for sale	<u>\$ 32,262,474</u>	-	<u>\$ 32,262,474</u>	-	
Non-recurring items:					
Impaired loans net of reserves	\$ 10,347,721	-	-	\$ 10,347,721	\$ 3,150,838
Foreclosed assets	<u>1,868,259</u>	-	-	<u>1,868,259</u>	155,171
Total assets measured at fair value on a non-recurring basis	<u>\$ 12,215,980</u>	-	-	<u>\$ 12,215,980</u>	

BEO Bancorp and Subsidiary

Notes to Consolidated Financial Statements, Continued

17. Fair Value Disclosures of Financial Instruments, Continued

The fair value represents management's best estimates based on a range of methodologies and assumptions. For loans with doubt as to collectability and foreclosed assets expected cash flows are discounted using an appropriate rate considering the time of collection, credit risk, and the discount for the uncertainty of the flows. The value of collateral is also considered.

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, banks 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, 2010, Bancorp and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the FRB and FDIC categorized Bancorp and the Bank as well capitalized. To be categorized as well capitalized 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 from that date through March 8, 2011 that management believes have changed the institution's category.

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

18. **Regulatory Matters, Continued:**

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

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2010:						
Total capital (to risk-weighted assets)						
BEO Bancorp	\$ 24,574	12.19%	\$ 16,125	8%	N/A	N/A
Bank of Eastern Oregon	28,200	13.99%	16,125	8%	20,156	10%
Tier I capital (to risk-weighted assets)						
BEO Bancorp	20,707	10.27%	8,063	4%	N/A	N/A
Bank of Eastern Oregon	25,674	12.73%	8,063	4%	12,094	6%
Tier I capital (to leverage assets)						
BEO Bancorp	20,707	8.19%	10,095	4%	N/A	N/A
Bank of Eastern Oregon	25,674	10.17%	10,095	4%	12,618	5%
As of December 31, 2009:						
Total capital (to risk-weighted assets)						
BEO Bancorp	\$ 22,639	11.71%	\$ 15,595	8%	N/A	N/A
Bank of Eastern Oregon	25,186	13.02%	15,595	8%	\$ 19,494	10%
Tier I capital (to risk-weighted assets)						
BEO Bancorp	18,413	9.52%	7,797	4%	N/A	N/A
Bank of Eastern Oregon	22,743	11.76%	7,797	4%	11,696	6%
Tier I capital (to leverage assets)						
BEO Bancorp	18,413	7.71%	9,556	4%	N/A	N/A
Bank of Eastern Oregon	22,743	9.52%	9,556	4%	11,945	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	
	2010	2009
Assets:		
Cash, deposited with the Bank	\$ 445,320	\$ 195,102
Investments in:		
Bank subsidiary	26,264,420	24,031,860
Nonbank subsidiaries (Trusts)	217,000	217,000
Subordinated debt issuance costs, net of amortization	40,000	47,119
	\$ 26,966,740	\$ 24,491,081
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	\$ 7,103	\$ 58,840
Subordinated Debt	11,322,000	9,947,000
Total liabilities	11,329,103	10,005,840
Stockholders' equity:		
Common stock	2,408,945	2,296,705
Surplus	1,690,193	1,598,673
Retained earnings and accumulated other comprehensive income	11,538,499	10,589,863
Total stockholders' equity	15,637,637	14,485,241
Total liabilities and stockholders' equity	\$ 26,966,740	\$ 24,491,081

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

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

STATEMENTS OF INCOME

	<u>Year Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Cash dividends from Bank	\$ 184,424	\$ 170,000
Less:		
Interest expense	(503,959)	(343,595)
Professional fees and administrative expenses	(114,389)	(55,009)
Amortization of subordinated debt issuance costs	<u>(10,000)</u>	<u>-</u>
Income before equity in undistributed earnings of the Bank	(443,924)	(228,604)
Equity in undistributed earnings of Bank	1,899,940	438,325
Credit for income taxes	<u>200,000</u>	<u>177,000</u>
Net income	<u>\$1,656,016</u>	<u>\$ 386,721</u>

STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31</u>	
	<u>2010</u>	<u>2009</u>
Operating activities:		
Net income	\$1,656,016	\$ 386,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	(1,899,940)	(438,325)
Amortization of subordinated debt issuance costs	10,000	-
Change in other assets and liabilities	<u>(54,618)</u>	<u>(4,950)</u>
Net cash used by operating activities	<u>(288,542)</u>	<u>(56,554)</u>
Investing Activities:		
Investment in subsidiaries	<u>(855,576)</u>	<u>(2,690,205)</u>
Financing activities:		
Proceeds from issuance of subordinated debt	1,375,000	2,730,000
Issuance of Common Stock	203,760	207,187
Dividends paid	<u>(184,424)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,394,336</u>	<u>2,937,187</u>
Net increase in cash	250,218	190,428
Cash, beginning of year	<u>195,102</u>	<u>4,674</u>
Cash, end of year	<u>\$ 445,320</u>	<u>\$ 195,102</u>