BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditor's Report

Year Ended December 31, 2020

CONTENTS

BEO BANCORP

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 you with the consolidated financial statements and operating results of BEO Bancorp and Bank of Eastern Oregon for the year 2020.

To say that 2020 was a year of challenges would be an extreme understatement. We all have experienced something that future generations will read about and study. The pandemic has encompassed all areas of our lives, from the wearing of facemasks, to various degrees of lockdowns. Our cities, counties, states, and country will feel the impact for years to come. The region also faced other forms of disaster, from floods to wildfires. 2020 will be one for the record books. I want to take this opportunity to thank our team of employees that continued to provide our customers with banking services throughout the challenges of 2020. I also want to thank our loyal customers and shareholders for their continued support of the Bank.

2020 witnessed your bank grow and expand. Some of this growth and profitability is directly attributed to the SBA's PPP initiative which provided much needed capital to businesses across the country. But we also saw growth in locations which we expanded into during 2019. 2020 was another strong earnings year for your Bank. Along with strong earnings, total assets ended the year at $666.7 million, up 35.3% from 2019. Loans grew 14.6% or $62.6 million to $491.7 million. Deposits also increased from 2019 by 35.1%, or $167.1 million to $607.8 million. Consolidated net income was 28.5% higher than our 2019 record, coming in at $5,523,000. Return on Average Assets (ROAA) for 2020 was 0.95% compared to 0.94% in 2019. Return on Average Equity came in at 13.81% compared to 11.81%, a 16.9% increase year over year. Net earnings per share were $4.66 in 2020 compared to $3.62 in 2019.

It is important to note that shareholder equity increased 11.3% to $41.9 million in 2020 up from 2019 level of $37.7 million. In 2020 we also paid the highest cash amount dividend in our history of $1,147,494 or $0.95 per share.

We will plan to have a shareholder meeting on Tuesday, April 27, 2021 at the Gilliam Bisbee building 106 E. May St., Heppner, OR; subject to any possible COVID related restrictions in place at the time. We will make final announcement on meeting options as the time approaches. We plan to elect 4 directors, review 2020 and offer a glimpse of what we see for 2021.

I hope that this report finds you healthy and that our nation continues to recover from the year that was 2020.

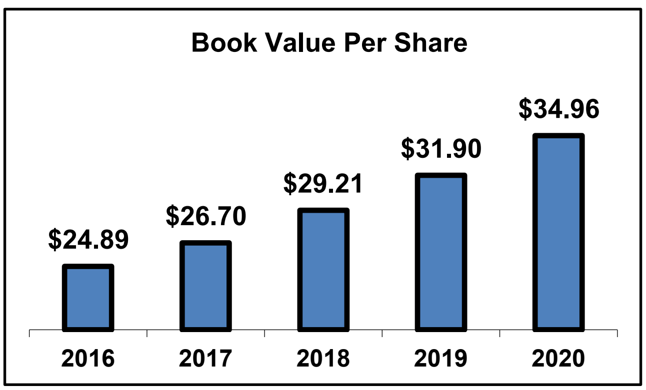
Sincerely,

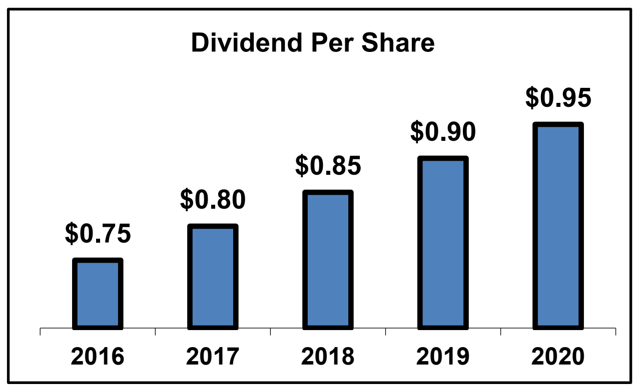
Jeff L. Bailey
President and CEO
BEO Bancorp

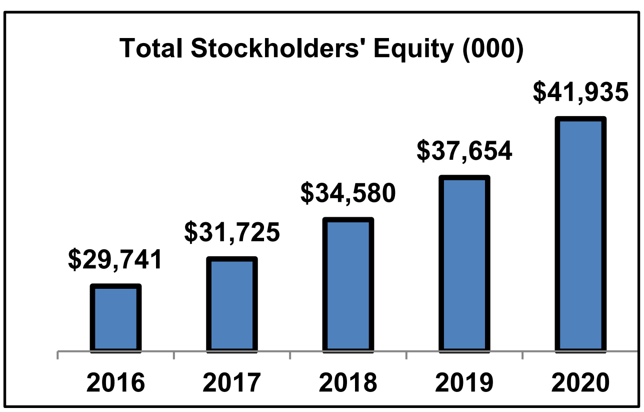
FINANCIAL HIGHLIGHTS

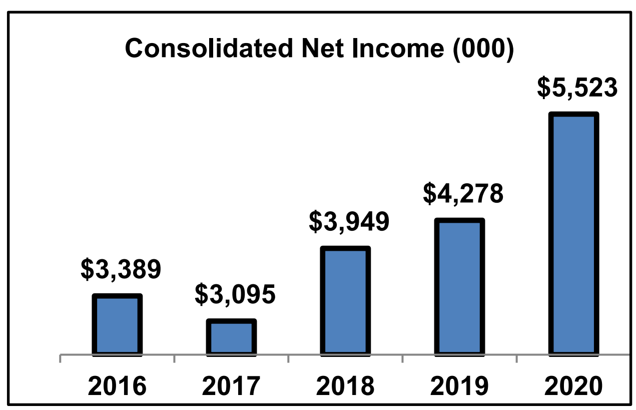
2016-2020

	2016	2017	2018	2019	2020
Net Income (000)	$3,389	$3,095	$3,949	$4,278	$5,523
Total Assets (000)	$382,187	$414,532	$414,379	$492,260	$666,699
Total Equity (000)	$29,741	$31,725	$34,580	$37,654	$41,935
Return on Average Assets	0.92%	0.78%	0.95%	0.94%	0.95%
Return on Average Equity	11.77%	10.07%	11.91%	11.84%	13.88%
Net Income Per Share	$2.80	$2.60	$3.33	$3.62	$4.66
Dividend Per Share	$0.75	$0.80	$0.85	$0.90	$0.95
Book Value Per Share	$24.89	$26.70	$29.21	$32.09	$34.96









Board of Directors:

Joe Gonzalez, Chairman	Owner, American Electric, Inc.
Brad Anderson, Vice Chairman	Partner, Triangle Ranches
Robert M. Armstrong	CPA, Solutions, CPA's
Jeff Bailey	Banker, Bank of Eastern Oregon
Gabrielle Homer	Financial Controller, Painted Hills Natural Beef
E. George Koffler	Retired Banker
Gary Neal	Retired General Manager, Port of Morrow
Joel Peterson	Owner, Daily Bread Farms, Inc.

Bank Officers:

Executive Team

Jeff Bailey, President & Chief Executive Officer
Mark Lemmon, EVP& Chief Financial Officer
Gary Propheter, EVP & Chief Operations Officer (12/31/20)
Becky Kindle, EVP & Chief Operations Officer (1/1/21)

Senior Vice Presidents:

John Qualls, SVP & Chief Lending Officer
Ed Rollins, SVP & Chief Credit Officer

Regional Vice Presidents:

John Bailey, Team Lead Loan Officer
Tracy Hamby, Team Lead Loan Officer
Mike Short, Team Lead Loan Officer
Alan Bullard, Team Lead Loan Officer
Jed Myers, Team Lead Loan Officer
Robert Williams, Team Lead Loan Officer

Vice Presidents:

James Bleth, IT Manager
Christy Correa, Finance Coordinator
Jolene Cox, Team Lead Branch Manager
Gaye Doanato, Loan Officer
James Gardner, Loan Officer
Pete McCabe, Loan Officer
Amy McNamee, Loan Officer
Craig Nightingale, Loan Officer
Janice Provencher, Branch Manager
Daniel Rehm, Loan Officer
Russell Seewald, Loan Officer
Lucy Sifuentez, Team Lead, Sec. Officer, Br. Mgr.
Becky Temple, Loan Officer
Nial Bradshaw, Loan Officer
Karen Cossitt, Team Lead Branch Manager
Janet Dezellem, Controller
Dawna Dougherty, Compliance Officer
Jared Lathrop, Loan Officer
Jill Martin, HR Manager
Kristy Nelson, Loan Officer
Anita Orem, Project Manager
Robert Quinton, Loan Officer
Tricia Rollins, Loan Operations Manager
Rhonda Shaffer, Consumer Lending Mgr.
David Stirewalt, Loan Officer
Todd Wood, Loan Officer

Assistant Vice Presidents:

Arletta Arnspiger, Mortgage Loan Officer
Laura Georges, Loan Officer
Amber Schlaich, Loan Officer
Laurie Barrow, Electronic Banking Specialist
Shane Lazinka, Loan Officer
Logan Schleicher, Loan Officer

Lenders and Managers

Andrea Austinson, Branch Manager
Cindy Bailey, Audit Manager
Bev Benson, Branch Manager
Shelly Hankins, Branch Manager
Sherrie Modey, Branch Manager
Debi Munck, Branch Manager
Rocio Orozco, Branch Manager
Sharon Rietmann, Branch Manager
Raymond Seastone, Construction Loan Officer
Kallie Warren, Branch Manager
Fred Zack, Loan Officer
Caitlynn Bailey, Cash Mgt. Officer, Training Manager
Jessica Barnett, Branch Manager
Ashley Delacruz, Branch Manager
Jeanniene Miller, Project Manager
Lori Moss, Branch Manager
Kaitlin Orcutt, Mortgage Loan Officer
Melissa Pierson, Electronic Banking Manager
Melissa Samms, Branch Manager
Stefanie Teasley, Branch Manager
Jack Wright, Branch Manager

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Audit Committee and Board of
Directors Bank of Eastern Oregon Bancorp
and Subsidiary Heppner, Oregon

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of BEO Bancorp and Subsidiary the Company) which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of income, profit and other comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, collectively the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Bailly LLP

Boise, Idaho
February 26, 2021

BEO Bancorp and Subsidiary
Consolidated Balance Sheet

	December 31, 2020
ASSETS	
Cash and cash equivalents:	
Cash and due from banks	$ 4,303,568
Interest bearing deposits at other financial institutions	131,185,825
Total cash and cash equivalents	135,489,393
Investment securities available-for-sale	11,233,091
Investment securities held-to-maturity	1,276,987
Loans, less allowance for loan losses	491,702,531
Interest receivable	4,680,591
Federal Home Loan Bank stock	589,700
Property, less accumulated depreciation	9,500,009
Deferred taxes, net	1,166,605
Core deposit intangible, net of accumulated amortization	1,402,885
Cash surrender value of bank owned life insurance	7,902,170
Operating leases right-to-use assets	586,253
Other assets	1,168,449
	531,209,271
Total assets	$ 666,698,664
LIABILITIES and STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Noninterest-bearing demand	$ 170,269,990
Savings and interest-bearing demand	394,539,799
Time, $250,000 and over	3,924,272
Other time	39,050,040
	607,784,101
Subordinated debentures	12,472,112
Interest payable	93,730
Operating leases right-to-use liabilities	586,253
Other liabilities	3,827,308
Total liabilities	624,763,504
Stockholders' equity:	
Common stock, $2.50 par value, 2,975,592 shares authorized 1,199,439 outstanding December 31, 2020	3,141,000
Additional paid-in capital	4,917,522
Retained earnings	36,126,781
Treasury stock at cost, 56,961 shares outstanding	(1,583,153)
Accumulated other comprehensive income (loss)	(666,990)
Total stockholders' equity	41,935,160
Total liabilities and stockholders' equity	$ 666,698,664

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

BEO Bancorp and Subsidiary
Consolidated Statement of Income

	Year Ended December 31, 2020
Interest income:	
Interest and fees on loans:	
Taxable	$ 26,544,933
Nontaxable	568,649
Interest on investment securities:	
Taxable	520,931
Nontaxable	67,588
Interest on deposits at other institutions	108,497
	27,810,598
Interest expense	1,593,504
Net interest income	26,217,094
Provision for loan losses	700,000
Net interest income after provision for loan losses	25,517,094
Noninterest income:	
Service charges	2,387,650
Mortgage banking income	438,075
Other	296,587
	3,122,312
Noninterest expense:	
Salaries and employee benefits	12,550,662
Equipment expense	2,078,899
Occupancy expense	970,384
Operating leases expense	308,389
Card processing and related expenses	1,121,271
Information Technology expenses	367,192
Professional Services and legal expenses	386,486
Advertising and public relations	363,435
Foreclosed asset expenses	277,239
Other	3,318,168
	21,742,125
Income before income taxes	6,897,281
Provision for income taxes	1,373,793
Net income	$ 5,523,488
Basic earnings per share	$ 4.66
Diluted earnings per share	$ 4.34

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

BEO Bancorp and Subsidiary
Consolidated Statement of Profit and Other Comprehensive Income

		Year Ended December 31, 2020
Net Income	$	**5,523,488**
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities		**(259,256)**
Tax Effect		**70,419**
Unrealized gain (loss) on cash flow hedge instrument		**(419,304)**
Tax Effect		**117,405**
Other comprehensive income (loss)		**(490,736)**
Comprehensive Income	$	**5,032,752**

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

BEO Bancorp and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOC Income (Loss)	Treasury Stock	Total
Balance, December 31, 2019	**$ 3,066,170**	**$ 4,209,474**	**$ 31,750,787**	**$ (176,254)**	**$ (1,196,284)**	**$ 37,653,893**
Net income	-	-	**5,523,488**	-	-	**5,523,488**
Other comprehensive income (loss):	-	-	-	**(490,736)**	-	**(490,736)**
Sale of 29,932 shares of common stock	**74,830**	**708,048**	-	-	-	**782,878**
Purchase of 10,947 shares of treasury stock	-	-	-	-	**(386,869)**	**(386,869)**
Cash dividends ($.95 per share)	-	-	**(1,147,494)**	-	-	**(1,147,494)**
Balance, December 31, 2020	**$ 3,141,000**	**$ 4,917,522**	**$ 36,126,781**	**$ (666,990)**	**$ (1,583,153)**	**$ 41,935,160**

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

BEO Bancorp and Subsidiary
Consolidated Statement of Cash Flows

	Year Ended December 31, 2020
Cash flows from operating activities:	
Net income	$ 5,523,488
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,038,902
Net gains or losses on asset dispositions	27,562
Amortization of investment premiums, net	66,843
Amortization of core deposit intangible	189,519
Provision for loan losses	700,000
Write down of foreclosed assets	270,058
Increase in cash value of life insurance	(200,965)
Deferred income taxes	(185,000)
Change in:	
Interest receivable and other assets	(309,833)
Deferred loan fees	823,130
Accrued interest and other liabilities	159,243
Net cash provided by operating activities	8,102,947
Cash flows from investing activities:	
Proceeds from maturities of investment securities	11,585,950
Purchase of investment securities	(3,427,143)
Proceeds from collections and sale of foreclosed assets	679,090
Purchase of FHLB stock	(92,200)
Loans originated, net of principal collected	(64,122,785)
Purchases of property	(410,305)
Net cash (used) in investing activities	(55,787,393)
Cash flows from financing activities:	
Net increase in deposits	167,137,061
Increase (Decrease) in subordinated debt	2,530,112
Issuance of common stock	782,878
Repurchase of common stock	(386,869)
Dividends paid	(1,147,494)
Net cash provided by financing activities	168,915,688
Net increase (decrease) in cash and cash equivalents	121,231,242
Cash and cash equivalents, beginning of year	14,258,151
Cash and cash equivalents, end of year	$ 135,489,393

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

BEO Bancorp and Subsidiary
Consolidated Statement of Cash Flows, Continued

		Year Ended December 31, 2020
Supplemental information:		
Cash paid during the year for:		
Income taxes	$	**1,750,000**
Interest		**1,590,536**
Operating leases		**308,389**

The accompanying notes are an integral part of these 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" or "Company"). 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 11). 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 and Southeastern Washington. 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.

Use of Estimates – The preparation of the consolidated 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.

Cash and Cash Equivalents – For purposes of presentation in the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "cash and due from banks", all of which have original maturities of 90 days or less.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Interest-Bearing Deposits in Banks – Interest-bearing deposits in banks mature within one year and are carried at cost.

1. Summary of Significant Accounting Policies, Continued:

Investment Securities – Securities for which management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are reported at cost adjusted for remaining balances of premiums or discounts.

Securities not classified as held-to-maturity are classified 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.

The Bank recognizes other-than-temporary impairments for debt securities classified as available-for-sale in accordance with ASC 320. Accordingly, the Bank assesses whether it intends to sell, or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement but is recognized in other comprehensive income. The Bank has not recognized an other-than-temporary impairment of its debt securities as management believes all unrealized losses on investment securities at December 31, 2020 are temporary (see Note 3).

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

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 collectability 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 collectability 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. General component covers non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

1. Summary of Significant Accounting Policies, Continued:

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

Major categories of loans are further defined by the Company into portfolio segments identified by the Company including farmland, commercial real estate, agricultural, commercial construction, commercial, real estate, real estate construction, and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The allowance and provision are estimates that are necessarily subjective and may be adjusted as more current information becomes available. Any adjustment could be significant.

The Bank classifies reserves for potential losses on commitments to loan in other liabilities.

Federal and state 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.

1. Summary of Significant Accounting Policies, Continued:

Credit Related Financial Instruments – In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements and standby letters of credit. Such financial instruments are recorded when they are funded.

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, 2020, the minimum required investment was $589,700. 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 and Equipment – 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 a straight-line basis with periodic evaluation for impairment.

Investment in Life Insurance Contracts – Investment in life insurance contracts is stated at cash surrender value of the various insurance policies. The income on the investment is included in other noninterest income.

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.

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

Income Taxes – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of deferred compensation, allowance for loan losses, premises and equipment, unrealized gain on securities, and prepaid expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. The Company had no unrecognized tax benefits as of December 31, 2020. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Fair Value – Bancorp applies the hierarchy and framework for measuring fair value, 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 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 Bancorp's and the Bank's financial instruments fall within Levels 2 and 3 (see Note 17).

Transfer of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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

Interest Rate Contracts and Hedging Activities – For asset/liability management purposes, the Company uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of debt on the balance sheet. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and convert a portion of the Company's variable-rate debt to a fixed rate.

The gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

For cash flow hedges, the net settlement (upon close-out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt.

The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately in noninterest income.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet specified hedging criteria would be recorded at fair value with changes in fair value recorded in income. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled, or classified as a trading activity.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

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

Deferred Compensation – Benefits under deferred compensation contracts are accrued over the period of the employee's active employment from the time the contract is signed to the employee's full eligibility date.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available-for-sale, and unrealized losses related to factors other than credit on debt securities, unrealized gains and losses on cash flow hedges, and changes in the funded status of the pension plan which are also recognized as separate components of equity.

Earnings Per Share (EPS) – Basic EPS represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued.

Subsequent Events – The Company has evaluated subsequent events through February 26, 2021, the date the consolidated financial statements are available for distribution.

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

Effective March 26, 2020, the Federal Reserve announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers. Depository institutions that were required to maintain deposits in a Federal Reserve Bank account to satisfy reserve requirements will no longer be required to do so and can use the additional liquidity to lend to individuals and businesses. It is management's understanding that the Federal Reserve currently has no plans to reinstate the reserve requirement. However, the Federal Reserve may adjust reserve requirement ratios in the future if conditions warrant.

3. Investment Securities:

The amortized cost and estimated fair values of investment securities at December 31, 2020 is as follows:

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	$ 757,186	$ 57,372	$ -	$ 814,558
Government guaranteed loan pools	6,861,436	194	(107,197)	6,754,433
Mortgage-backed securities	2,874,194	24,960	(1,690)	2,897,464
Obligations of municipal entities	721,304	45,332	-	766,636
	$ 11,214,120	$ 127,858	$ (108,887)	$ 11,233,091

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of municipal entities	$ 1,276,987	$ -	$ -	$ 1,276,987
	$ 1,276,987	$ -	$ -	$ 1,276,987

Investment securities that were in unrealized loss positions as of December 31, 2020 are presented in the following tables, based on the length of time that individual securities were in unrealized loss positions.

	Securities in Unrealized Loss Positions as of December 31, 2020					
	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	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	-	-	218,323	(1,690)	218,323	(1,690)
Government guaranteed loan pools	4,019,649	(55,151)	2,477,838	(52,046)	6,497,487	(107,197)
Obligations of municipal entities	-	-	-	-	-	-
Total	$ 4,019,649	$ (55,151)	$ 2,696,161	$ (53,736)	$ 6,715,810	$ (108,887)

3. Investment Securities, Continued:

The unrealized losses on investment securities were caused by interest rate increases subsequent to the purchase of the securities and are considered temporarily impaired. 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.

The amortized cost and estimated fair value of investment securities at December 31, 2020 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.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 101,902	$ 103,357	$ 566,987	$ 566,987
Due after one year through five years	5,810,527	5,788,326	710,000	710,000
Due after five years	2,427,497	2,443,945	-	-
Mortgage-backed securities	2,874,194	2,897,463	-	-
	$ 11,214,120	$ 11,233,091	$ 1,276,987	$ 1,276,987

At December 31, 2020, there were no securities pledged for public deposits.

There were no proceeds from sales of available-for-sale securities during the year ended December 31, 2020.

4. Loans:

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

	2020
Farmland Loans	$ 123,347,116
Commercial real estate loans	91,864,405
Agriculture loans	115,736,985
Commercial construction loans	9,790,782
Commercial loans	115,280,152
Real estate loans	25,357,252
Real estate construction loans	13,382,636
Consumer loans	3,527,471
	498,286,799
Deferred loan origination fees	(1,474,437)
Purchased loans discount	(97,557)
	496,714,805
Allowance for loan losses	(5,012,274)
	$ 491,702,531

The loan portfolio at December 31, 2020 includes $343,141,963 of loans which have a variable rate of interest. The December 31, 2020 amount includes $251,189,129 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheets. There were $1,392,429 in loans being serviced for others at December 31, 2020.

The total loans outstanding on December 31, 2020 which were on a nonaccrual basis, contractually past due 90 days or more as to interest or principal payments are as follows:

	30-89 Days Past Due	Loans Past Due 90 Days or More and Still Accruing	Recorded Investment Nonaccrual Loans	Unpaid Principal Nonaccrual Loans
Agriculture	$ 150,000	$ 77,014	$ 1,672,842	$ 2,266,052
Commercial real estate	314,775	-	2,220,688	2,243,718
Commercial	-	35,551	2,212,384	2,212,384
Farmland	551,400	453,669	2,115,584	2,115,584
Real Estate	-	-	546,584	546,584
	$ 1,016,175	$ 566,234	$ 8,768,082	$ 9,384,322

4. Loans, Continued:

The following is an analysis of impaired loans as of December 31, 2020:

	Impaired Loans				
	With a Related Allowance	Without a Related Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Allowance
Farmland	$ -	$ 3,374,946	$ 3,374,946	$ 3,579,830	$ -
Commercial real estate	-	4,454,177	4,454,177	4,477,207	-
Agriculture	617,319	1,693,248	2,310,567	2,903,777	554,609
Commercial	-	2,338,607	2,338,607	2,640,613	-
Real estate	-	821,365	821,365	823,940	-
	$ 617,319	$ 12,682,343	$ 13,299,662	$ 14,425,367	$ 554,609

The average recorded investment in impaired loans was approximately $13,045,278 in 2020. Interest income recognized on impaired loans totaled $624,677 in 2020. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was $830,453 in 2020.

There were no loans accounted for as Trouble Debt Restructurings (TDR) that occurred during the year ended December 31, 2020.

One loan with a balance of $26,632 accounted for as TDR from previous years was in default as of December 31, 2020. At December 31, 2020 the Bank had no unfunded commitments on TDR loans. Loans are accounted for as TDR when significant concessions have been granted that would not have otherwise been considered except for the borrower's financial difficulties. Concessions may include extended repayment terms such as interest only payments or lengthened maturities, or interest rate modifications and are granted to improve the likelihood that the borrower will be able to repay the obligation. TDR loans are included in impaired loans and the methodology for evaluating credit losses and accrual status is the same as for other impaired loans.

5. Allowance for Loan Losses:

The Bank maintains an allowance for loan losses ("ALLL") to absorb losses resulting from the inherent risks of lending. The balance of the ALLL is reviewed at least quarterly to assess the adequacy relative to probable estimated losses within the loan portfolio. The methodology is consistent with the Contingencies and Receivables topics of the FASB ASC and did not significantly change during 2020.

A detailed analysis of the ALLL by major portfolio segment as of December 31, 2020:

			Allowance for Loan Losses					
	Weighted Average Risk Rating	Loans by Classification	Beginning Balance	Net (Charge-off) Recovery	Provision	Ending Balance	Specific Reserve	General Allocation
Farmland	3.11	$123,347,116	$ 858,143	$ -	$ 39,781	$ 897,924	$ -	$ 897,924
Commercial real estate	2.98	91,864,405	659,257	318	127,309	786,884	-	786,884
Agriculture	3.01	115,736,985	1,543,239	-	370,048	1,913,287	554,609	1,358,678
Commercial Construction	2.71	9,790,782	146,056	-	34,932	180,988	-	180,988
Commercial	2.71	115,280,152	567,180	13,471	76,125	656,776	-	656,776
Real estate	2.90	25,357,252	271,779	-	6,523	278,302	-	278,302
Real Estate Construction	2.97	13,382,636	210,810	-	36,832	247,642	-	247,642
Consumer	3.07	3,527,471	41,871	150	8,450	50,471	-	50,471
Total	3.05	$498,286,799	$4,298,335	$ 13,939	$ 700,000	$ 5,012,274	$ 554,609	$4,457,665

	Loan Balances	
	Individually Impaired Loans	Collectively Evaluated Loans
Farmland loans	$ 3,374,946	$ 119,972,170
Commercial real estate loans	4,454,177	87,410,228
Agriculture loans	2,310,567	113,426,418
Commercial construction loans	-	9,790,782
Commercial loans	2,338,607	112,941,545
Real estate loans	821,365	24,535,887
Real estate construction loans	-	13,382,636
Consumer loans	-	3,527,471
Total	$ 13,299,662	$ 484,987,137

5. Allowance for Loan Losses, Continued**:**

The ALLL includes a general allowance based on quantitative and qualitative factors on non-impaired loans plus specific reserves on impaired loans established to account for credit attributes of the individual relationships. Credit risk is managed through established policies and procedures including lending limits, diversification, approval requirements, and an ongoing comprehensive review process. The review process includes assigning a numerical risk rating to a loan when originated, and then modifying that risk rating as circumstances dictate.

These Loan risk ratings are assigned as follows:

A rating of 1-2 indicates low apparent credit risk and are considered pass loans.
A rating of 3-4 indicates average to above average potential credit risk and are considered pass loans.
A rating of 5-6 indicates weaknesses and factors displaying potential credit risk that requires a higher level of management attention and are considered watch loans.
A rating of 7 indicates a probable loss but the amount is not specifically determined and is considered substandard.
A rating of 8 indicates specific loss has been identified and charge-off is imminent and is considered doubtful.

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2020 was as follows:

Credit risk profile by internally assigned grade – Commercial, Commercial Real Estate and Agricultural.

	Pass	Watch	Substandard	Doubtful	Total
Commercial					
Commercial	$ 112,071,481	$ 847,692	$ 2,360,979	$ -	$ 115,280,152
Commercial construction	9,790,782	-	-	-	9,790,782
Commercial Real Estate					
Commercial real estate	86,780,852	2,096,725	2,986,828	-	91,864,405
Agriculture					
Farmland	118,169,705	2,161,127	3,016,284	-	123,347,116
Agriculture	110,080,795	2,947,687	2,708,503	-	115,736,985
	$ 436,893,615	$ 8,053,231	$ 11,072,594	$ -	$ 456,019,440

5. Allowance for Loan Losses, Continued:

Credit Risk Profile by Class Based on Payment Activity – Residential and Consumer

Residential real estate and consumer loans are managed on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more or are not accruing interest are considered nonperforming. The following table presents the recorded investments in residential real estate and consumer loans by class based on payment activity as of December 31, 2020:

	Performing	Nonperforming
Residential Real Estate		
Real estate loans	$ 24,810,668	$ 546,584
Real estate construction loans	13,382,636	-
Consumer		
Consumer loans	3,527,471	-
Deferred Fees and Purchase Discounts	(174,102)	
	$ 41,546,673	$ 546,584

6. Property and Equipment:

Property and Equipment at December 31 consists of the following:

	2020
Land	**$ 865,464**
Buildings and improvements	**11,030,040**
Furniture and equipment	**6,425,712**
	18,321,216
Accumulated depreciation	**(8,821,207)**
	$ 9,500,009

Depreciation expense of $1,038,902 was recognized in the year ending December 31, 2020.

7. Core Deposit Intangible:

Core deposit intangible consists of the following as of December 31:

	2020
Beginning Purchased Cost	$ 1,895,190
Accumulated amortization	(492,305)
	$ 1,402,885

Forecasted amortization is as follows:

2021	$ 189,519
2022	189,519
2023	189,519
2024	189,519
2025	159,141
Thereafter	485,668
Total	$ 1,402,885

8. Other Assets:

Other assets consist of the following as of December 31:

	2020
Prepaid expenses	$ 625,197
Investment in unconsolidated subsidiaries (Trusts) (Note 11)	217,000
Other equity securities	190,425
Other items	135,827
	$ 1,168,449

9. Deposits:

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

	2020
Less than one year	$ 27,595,192
One to three years	10,986,670
Over three years	4,392,450
	$ 42,974,312

10. Borrowings:

At December 31, 2020, the Bank has unused credit available totaling approximately $42,000,000 from the Federal Home Loan Bank of Des Moines (FHLB), $29,000,000 of federal funds lines with correspondent banks and $5,600,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2020. The Bank has an outstanding letter of credit for $19,000,000 with FHLB as collateral for specific municipal deposits having balances in excess of FDIC insurance limits.

The FHLB borrowings, when used, are 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.

11. Subordinated Debentures:

As of December 31, 2020, 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.

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.

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, 2020 is reflected as subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets (Note 8).

Beginning in the third quarter of 2019 through the second quarter of 2020 $4,038,000 of 5-year, 4%, Callable/Convertible Subordinated Notes (“B Notes”) were issued in a private offering. The B Notes are convertible into common stock at 85% of the sixty-day weighted average price at the time of the election. During 2020 approximately $783,000 were converted into 29,932 shares of common stock.

In the fourth quarter of 2020 a private offering of six-month, 4% Subordinated Notes (“C Notes”) resulted in $2,000,000 in new notes. The C Notes may be extended upon mutual agreement to terms by Bancorp and the investor.

11. Subordinated Debentures, Continued:

A summary of the terms of all outstanding subordinated debentures at December 31, 2020 is as follows:

	BEO Trust I	BEO Trust II	B Notes	C Notes
Outstanding	$4,124,000	$3,093,000	$3,255,112	$2,000,000
Issued	December 17, 2003	March 17, 2005	2019 and 2020	December 2020
Maturity	December 17, 2033	March 17, 2035	2024 to 2025	July 2021
Interest rate	LIBOR plus 2.85% (3.08% at 12/31/2020)	LIBOR plus 1.90% (2.13% at 12/31/2020)	4.0%	4.0%

12. Benefit Plans:

The Bank has a defined contribution 401(k) plan and employee stock ownership plan (ESOP) that covers substantially all employees. Employer contributions are determined annually by the Board of Directors. The ESOP may use employer contributions to purchase Bancorp stock. Shares of Bancorp stock are then credited to plan participants based on annual compensation. All investments of the ESOP are held in trust for the exclusive benefit of participating employees.

Compensation for plan participants is the total eligible wages paid to participants by the Bank for each calendar year, excluding fringe benefits. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings.

Employer contributions charged to expense were $639,132 in 2020. During 2020 the plan purchased 9,762 shares of BEO Bancorp stock at a cumulative purchase price of $263,578. At December 31, 2020 the plan held 129,174 Bancorp shares, all of which were allocated to participants.

13. Bank Owned Life Insurance and Deferred Compensation:

The Bank is beneficiary of bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. Aggregate death benefits under the plan at December 31, 2020, are $20,030,441. At December 31, 2020, the Bank recorded a salary continuation benefit obligation included in other liabilities of $1,731,073. During 2020 $89,138 was paid in benefits and the amount of expenses charged was $222,962.

14. Income Taxes:

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

	2020
Current tax expense:	
Federal	$ 1,180,596
State	378,197
	1,558,793
Deferred tax expense (benefit):	
Federal	(136,000)
State	(49,000)
	(185,000)
	$ 1,373,793

The provision for income taxes results in effective tax rates less than the federal income tax statutory rate. The reasons for the differences as of December 31 are as follows:

	2020
Tax on income at federal statutory rate (21%)	$ 1,448,429
State income tax, net of federal benefit	320,833
Nontaxable interest income, net of allocable interest expense	(131,750)
Other, net	(263,719)
	$ 1,373,793

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 year ended December 31 are as follows:

	2020
Deferred compensation not deducted for tax purposes	$ (37,127)
Loan origination costs	159,106
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	(163,737)
Depreciation and amortization	(186,578)
Other, net	43,336
	$ (185,000)

14. Income Taxes, Continued:

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

	2020
Assets:	
Allowance for loan losses	**$ 1,188,668**
Deferred compensation	**458,255**
Purchased NOL carryforward	**287,028**
Purchased Oregon BETC	**2,289**
Foreclosed assets basis difference	**-**
Unrealized loss on investment securities available-for-sale	**-**
Unrealized loss on cash flow hedge instrument	**264,758**
Total deferred tax assets	**2,200,998**
Liabilities:	
Unrealized gain on investment securities available-for-sale	**5,153**
Loan origination costs	**261,803**
Excess tax over book depreciation, amortization and impairment charges	**648,775**
Prepaid expenses	**118,662**
Federal Home Loan Bank stock dividends	**-**
Total deferred tax liabilities	**1,034,393**
Net deferred tax assets	**$ 1,166,605**

The Company files income tax returns in the U.S federal jurisdiction and in the state of Oregon. The Company recognized no interest and penalties on the underpayment of income taxes during the year ended December 31, 2020 and had no accrued interest and penalties on the balance sheet as of December 31, 2020.

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:

	2020
Commitments to extend credit	**$ 152,909,048**
Standby letters of credit and financial guarantees written	**3,142,159**

16. Related Party Loans and Deposits:

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, 2020 was as follows:

	2020
Balance, January 1	$ 968,807
Net additions or renewals	506,359
Amounts collected or renewed	(695,612)
Balance, December 31	$ 779,554

In addition, there were $714,683 in commitments to extend credit to directors and officers at December 31, 2020, which are included as part of commitments in Note 15.

Directors' and officers' deposits totaled $7,472,034 at December 31, 2020.

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:

	2020	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 135,489,393	$ 135,489,393
Investment securities	12,510,078	12,510,078
Loans, net of allowance for loan losses	491,702,531	555,604,424
Interest receivable	4,680,591	4,680,591
Federal Home Loan Bank stock	589,700	589,700
Financial liabilities:		
Deposits	607,784,101	608,321,576
Cash flow hedge	945,566	945,566
Trust Preferred Securities	7,217,000	8,162,566
Other subordinated debentures	5,255,112	5,255,112
Accrued interest payable	93,730	93,730

17. Fair Value Disclosures of Financial Instruments, Continued:

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

Investment 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.

Subordinated debentures – The fair value is estimated by 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.

17. Fair Value Disclosures of Financial Instruments, Continued:

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

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
ecember 31, 2020					
ecurring items, assets (liabilities):					
Cash flow hedge instrument	$ (945,566)	$ -	$ (945,566)	$ -	
Investment securities available for sale	11,233,091	-	11,233,091	-	
Total items measured at fair value on a recurring basis	$ 10,287,525	$ -	$ 10,287,525	$ -	
on-recurring items:					
Impaired loans valued at fair value	$ 617,319	$ -	$ -	$ 617,319	
Foreclosed assets	-	-	-	-	$ 274,058
Total items measured at fair value on a non-recurring basis	$ 617,319	$ -	$ -	$ 617,319	

Cash flow hedge instruments – Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Investment securities available-for-sale – Fair values for securities, excluding FHLB stock, are based on quoted market prices or dealer quotes. The carrying value of FHLB stock approximates fair value based on their respective redemption provisions.

Impaired loans – Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

The fair value of impaired loans is estimated based on either the present value of expected future cash flows discounted at the loans' effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

17. Fair Value Disclosures of Financial Instruments, Continued:

Foreclosed assets – Assets acquired through, or in lieu of, loan foreclosure are held for sale and 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.

The fair value represents management's best estimates based on a range of methodologies and assumptions. For loans with doubt as to collectability that are collateral dependent and foreclosed assets, the valuation is based on appraised value of the collateral less costs to sale. For loans not deemed collateral dependent, 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.

A reconciliation of the assets measured at Fair Value Using Unobservable Inputs (Level III) is as follows:

	Impaired loans net of reserves	Foreclosed assets	Total
Balance 12/31/19	**$ 2,363,677**	**$ 953,090**	**3,316,767**
Net unrealized losses	**-**	**-**	**-**
Net realized gains (losses)	**-**	**(274,058)**	**(274,058)**
Additions, collections and deletions, net	**(1,746,358)**	**(114,274)**	**(1,860,632)**
Transfers between Level III at fair value	**-**	**-**	**-**
Sales	**-**	**(564,758)**	**(564,758)**
Balance 12/31/20	**$ 617,319**	**$ -**	**$ 617,319**

The following table presents quantitative information about non-recurring Level III fair value measurements at December 31, 2020.

	Value	**Valuation Technique**	**Unobservable Input**	**Range**
Impaired Loans valued at fair value	**$ 617,319**	Collateral Value	Cost to sale	5%-10%
Foreclosed Assets	**-**	Collateral Value	Cost to sale	5%-10%

18. Leases

The Bank leases certain office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2025 and provide for renewal options ranging from annually to five years. The leases provide for increases in future minimum annual rental payments based various factors. Also, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Company estimates an applicable incremental borrowing rate.

The Company has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Company elected the practical expedient to not separate lease and non-lease components for a real estate and office equipment leases.

Total lease expense under noncancelable leases was $308,389 for the year December 31, 2020.

The following table summarizes the supplemental cash flow information for the year ended December 31:

	2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 308,389
Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	$ 586,253

The following summarizes the weighted-average remaining lease term and weight-average discount rate:

Weighted-average remaining lease term	
Operating leases	3.6 Years
Weighted-average discount rate	
Operating leases	7.35%

18. Leases, Continued:

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 2020.

	Operating
2021	$ 243,773
2022	173,223
2023	128,081
2024	112,081
2025	46,714
Thereafter	-
Total lease payments	703,872
Less interest	117,619
Present value of lease liabilities	$ 586,253

19. Revenue from Contracts with Customers:

All the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income. Gains on sales of loans and gains from sales of securities are outside of the scope of ASC 606. Service charge income includes $1,663,384 of interchange income which is within the scope of ASC 606, and service charges on deposit accounts in the amount of $724,266. Mortgage banking income totals $438,075 and the remaining balance of $296,587 represents other miscellaneous income, which are outside the scope of ASC 606.

A description of the Company's revenue streams accounted for under Topic 606 follows:

Service Charges on Deposit Accounts - The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income - The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

20. Regulatory Matters:

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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. The capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

At December 31, 2020, Bancorp qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, is not subject to consolidated capital rules at the bank holding company level.

Congress mandated tailoring of capital rules in Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 and created the Community Bank Leverage Ratio

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20. Regulatory Matters, Continued:

(CBLR). Under this provision, a bank with less than $10 billion in assets that also meets certain other risk-profile criteria will have the option to meet the CBLR requirement instead of the more complex risk-weighted requirements. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

Section 201 grants federal banking regulatory agencies discretion over certain aspects of CBLR implementation, including setting the exact ratio and discretion over implementation based on an individual institution’s risk profile. On October 29, 2020 the banking regulators finalized the rule with a 9% threshold. Then on April 6, 2020, responding to the coronavirus pandemic, congress mandated in the Coronavirus Aid, Relief, and Economic Security Act that the ratio be temporarily lowered to 8% until the end of 2020 so that banks have more leeway to deal with the pandemic's impact. In rulemaking implementing that provision, the regulators set the ratio for 2020 at 8%, then 8.5% for 2021 before raising it back to 9% for the first quarter of 2022 and thereafter.

The Bank qualified for and elected to adopt the provisions of the CBLR in 2020. The Bank’s latest calculation of CBLR for December 31, 2020 was 8.61%. There are no conditions or events since then that management believes have changed the Bank’s category of well-capitalized.

21. Earnings Per Share:

Earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the year. Diluted EPS includes the effect from the potential issuance of common stock associated with the Callable/Convertible Subordinated Notes (Note 11).

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows for the year ended December 31.

	2020
Numerator:	
Net earnings	$5,523,488
Adjustment for interest expense on convertible notes, net of tax effect	90,207
Net earnings, adjusted	$5,613,695
Denominator:	
Basic weighted average shares	1,185,370
Dilution for convertible notes	108,190
Diluted weighted average shares	1,293,560
Basic EPS	$4.66
Diluted EPS	$4.34

22. Interest Rate Contracts:

Interest rate swap contracts are entered into primarily as an asset/liability management strategy of the Company to modify interest rate risk. The primary risk associated with all swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. The Company is exposed to losses if the counterparty fails to make its payments under a contract in which the Company is in a receiving status. The Company minimizes its risk by monitoring the credit standing of the counterparties. The Company anticipates the counterparties will be able to fully satisfy their obligations under the remaining agreements. These contracts are typically designated as cash flow hedges.

The Company has outstanding interest rate swap agreements with notional amounts totaling $7,000,000 to convert the variable-rate trust preferred securities into fixed-rate instruments. The agreements have a weighted average maturity of 7.1 years and have fixed rates ranging from 4.925% to 5.3475% with a weighted average rate of 5.16%. The fair value of the derivatives was an unrealized loss of $945,566 at December 31, 2020.

No gain or loss was recognized in earnings for the year ended December 31, 2020 related to the interest rate swaps. No deferred net loss on interest rate swaps in other comprehensive income at December 31, 2020, are expected to be reclassified into net income during the next 12 months. See Statement of Other Comprehensive Income for amounts reported as other comprehensive loss.

The following table summarizes the derivative financial instruments utilized at December 31, 2020:

Cash Flow Hedges	Interest rate swap contract	Interest rate swap contract
Balance Sheet Location	Other liabilities	Other liabilities
Notional Amount	$3,000,000	$4,000,000
Fair Value Loss	($781,176)	($164,390)

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received at December 31, 2020:

	Interest rate swap contract	Interest rate swap contract
Notional Amount	$3,000,000	$4,000,000
Maturity Years	14.2	1.7
Fair Value Loss	($781,176)	($164,390)
Interest Rate Receive	LIBOR 3M +1.9%	LIBOR 3M +2.85%
Interest Rate Pay	4.93%	5.35%

23. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEET

	December 31, 2020
Assets:	
Cash, deposited with the Bank	$ 1,841,204
Investments in:	
Bank subsidiary	53,071,884
Nonbank subsidiaries (Trusts)	217,000
Other assets, net of amortization	264,756
	$ 55,394,844
Liabilities and stockholders' equity:	
Liabilities:	
Accrued interest payable	$ 42,006
Unrealized loss on cash flow hedge instrument	945,566
Subordinated debt	12,472,112
Total liabilities	13,459,684
Stockholders' equity:	
Common stock	3,141,000
Surplus	4,917,522
Retained earnings and accumulated other comprehensive income	35,459,791
Treasury stock at cost (31,675 shares)	(1,583,153)
Total stockholders' equity	41,935,160
Total liabilities and stockholders' equity	$ 55,394,844

23. Parent Company Financial Information, Continued:

STATEMENT OF INCOME

	Year Ended December 31, 2020
Cash dividends from Bank	$ 1,647,494
Less:	
Interest expense	(525,842)
Professional fees and administrative expenses	(132,893)
Income (loss) before equity in undistributed earnings of the Bank	988,759
Equity in undistributed earnings of Bank	4,334,729
Credit for income taxes	200,000
Net income	$ 5,523,488

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2020
Operating activities:	
Net income	$ 5,523,488
Adjustments to reconcile net income to net cash provided by operating activities:	
Undistributed earnings of the Bank	(4,334,729)
Change in other assets and liabilities	17,037
Net cash provided by operating activities	1,205,796
Investing activities:	
Investment in Subsidiaries	(1,313,000)
Financing activities:	
Issuance (Retirement) of subordinated debt	2,530,112
Issuance of Common Stock	782,878
Repurchase of common stock	(386,869)
Dividends paid	(1,147,494)
Net cash provided (used) by financing activities	1,778,627
Net increase (decrease) in cash	1,671,423
Cash, beginning of year	169,781
Cash, end of year	$ 1,841,204