BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditor's Report

Years Ended December 31, 2023 and 2022

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 for BEO Bancorp and Bank of Eastern Oregon for 2023.

Continued fiscal tightening by The Federal Reserve, an asset sensitive balance sheet, strategic investing, and good loan portfolio performance drove profitability for your Bank in 2023. The year continued profitability trends that began in 2022. By all financial measurements, 2023 was a great year for your Bank.

Agriculture was a mixed bag this year. Crop production in 2023 was a bit of a letdown compared to 2022. Cattle producers experienced record cattle prices Across all sectors, inflation impacted expenses and resulted in tightened margins, but overall credit quality remains steady.

2023 consolidated net income was $14.2 million, a new record, and up 65.5% from 2022, our previous highest net income level. Net loans increased 6.8% to $521.9 million, while deposits were down 5.2% ending the year at $776.4 million. Total assets decreased 3.3% to $860.6 million.

Steady liquidity has allowed us to grow our investment portfolio, which has significantly added to Bank profitability. Return on Average Assets (ROAA) for 2023 was 1.62% compared to 1.0% in 2022 an increase of 62.3%; Return on Average Equity (ROAE) increased from 2022 level of 17.54% to 24.91% in 2023, an increase of 42.0%. Net earnings per share was $11.75 up 64.8% from $7.13 in 2022. We also paid our largest dividend ever of $1.15 per share. Shareholder equity was up 28.2% year over year.

These results are not possible without the support of our customers and communities. For their loyalty and support we are truly thankful. We also have a tremendous group of employees that work hard each day to provide top notch banking services that our customers and shareholders want and deserve. I commend them for their work and dedication to the Bank.

We plan to have our shareholder meeting at 7:00pm on Tuesday, April 23, 2024, at the Gilliam Bisbee building located in Heppner, OR at 106 E. May St. We plan to elect four directors, review 2023, look ahead to 2023, and thank retiring directors Gary Neal and Joe Gonzalez for their years of service.

As always, thank you for your investment in BEO Bancorp and Bank of Eastern

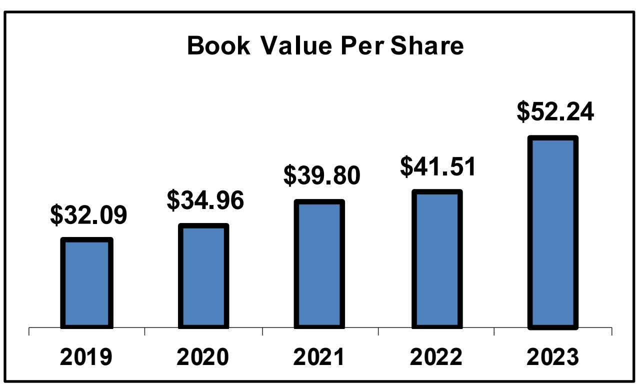
Sincerely,

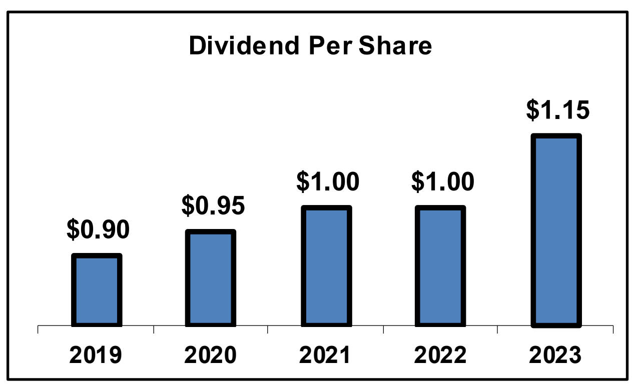
Jeff L. Bailey
President and CEO
BEO Bancorp

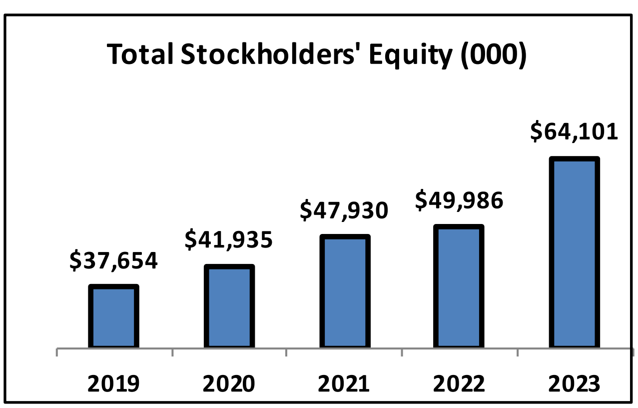
FINANCIAL HIGHLIGHTS

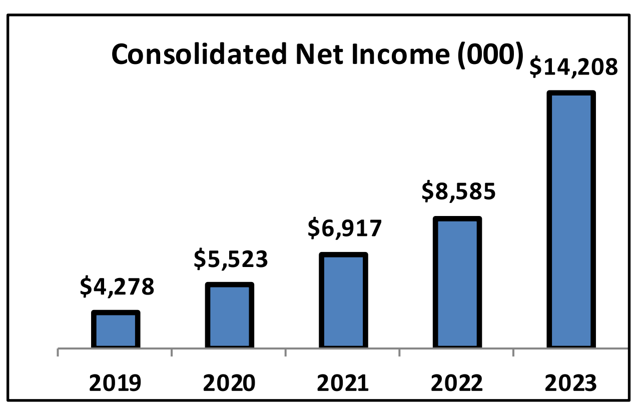
2019-2023

	2019	2020	2021	2022	2023
Net Income (000)	$4,278	$5,523	$6,917	$8,585	$14,208
Total Assets (000)	$492,260	$666,699	$821,592	$890,095	$860,628
Total Equity (000)	$37,654	$41,935	$47,930	$49,986	$64,101
Return on Average Assets	0.94%	0.95%	0.93%	1.00%	1.62%
Return on Average Equity	11.84%	13.88%	15.39%	17.54%	24.91%
Net Income Per Share	$3.62	$4.66	$5.74	$7.13	$11.75
Dividend Per Share	$0.90	$0.95	$1.00	$1.00	$1.15
GAAP Book Value Per Share	$32.09	$34.96	$39.80	$41.51	$52.24
Book Value Per Share before termporary adjustment for Accumulated Other Comprehensive Loss	$32.06	$35.53	$40.25	$46.38	$56.74









Board of Directors:

Brad Anderson, Chairman — Partner, Triangle Ranches
Robert M. Armstrong, Vice Chairman — CPA, Solutions, CPA's
Jeff Bailey — Banker, Bank of Eastern Oregon
Josh Burns — Insurance Agent, Swanson Insurance Group
Marie Cain — Manager of Accounting, Umatilla Electric Co-op
Joe Gonzalez — Owner, American Electric, Inc.
Gabrielle Homer — Financial Controller, Painted Hills Natural Beef
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
Ed Rollins, EVP & Chief Credit Officer
Becky Kindle, EVP & Chief Operations Officer
John Qualls, EVP & Chief Lending Officer

Regional Vice Presidents:

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

Vice Presidents:

Arletta Arnspiger, Mortgage Loan Officer
James Bleth, IT Manager
Michael Broeckel, Loan Officer
Karen Cossitt, Branch Manager
Dawna Dougherty, Compliance Officer
Jared Lathrop, Loan Officer
Jill Martin, HR Manager
Anita Orem, Project Manager
Tricia Rollins, Loan Operations Manager
Logan Schleicher, Loan Officer
Stefanie Teasley, Team Lead & Branch Manager
Becky Temple, Loan Officer
Cindy Bailey, Audit Manager
Nial Bradshaw, Loan Officer
Christy Correa, Controller
Gaye Doanato, Loan Officer
Laura Georges, Loan Officer
Shane Lazinka, Loan Officer
Kristy Nelson, Loan Officer
Robert Quinton, Loan Officer
Amber Schlaich, Loan Officer
Lucy Sifuentez, Team Lead & Security Officer
David Stirewalt, Loan Officer
Todd Wood, Loan Officer

Assistant Vice Presidents:

Caitlynn Bailey, Internal Audit assistant & ISO
Jennifer Berry, Consumer Loan Officer
Hector Lopez, Loan Officer
Sharon Rietmann, Branch Manager
Laurie Barrow, Electronic Banking Specialist
Shelly Hankins, Team Lead & Branch Manager
Heidi Nelson, IT
Raymond Seastone, Construction Loan Officer

Lenders and Managers

Tressie Allen, Branch Manager
Kendra Butterfield, Loan Officer
Ashley Delacruz, Team Lead & Branch Manager
Marissa Gutierrez, Branch Manager
Jon McPhee, Loan Officer
Sherrie Modey, Branch Manager
Kaitlin Orcutt, Mortgage Loan Officer
Melissa Pierson, Electronic Banking Manager
Kallie Warren, Branch Manager
Vanessa Williamson, Branch Manager
Andrea Austinson, Branch Manager
Kolby Currin, Loan Officer
Adrian Green, Loan Officer
Jay Hart, Loan Officer
Chelsie Messenger, Branch Manager
Debi Munck, Branch Manager
Rocio Orozco, Branch Manager
Melissa Samms, Branch Manager
Lori Whitbeck, Branch Manager
Dustin Winn, Branch Manager

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Bank of Eastern Oregon Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, profits and other comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of FASB Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as of January 1, 2023, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Boise, Idaho
February 23, 2024

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

	December 31 2023	December 31 2022
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 4,020,612**	$ 3,879,458
Interest bearing deposits at other financial institutions	**60,363,681**	167,508,603
Total cash and cash equivalents	**64,384,293**	171,388,061
Interest bearing deposits at banks	**2,205,000**	2,205,000
Investment securities available-for-sale	**232,889,603**	191,312,751
Investment securities held-to-maturity	**3,088,259**	2,396,351
Loans, less allowance for credit losses	**521,866,785**	488,808,226
Interest receivable	**7,975,609**	6,217,448
Federal Home Loan Bank stock	**575,700**	1,008,800
Property, less accumulated depreciation	**8,810,280**	8,480,117
Deferred taxes, net	**4,169,479**	3,684,175
Core deposit intangible, net of accumulated amortization	**834,328**	1,023,847
Cash surrender value of bank owned life insurance	**11,908,411**	11,599,713
Operating leases right-to-use assets	**623,663**	872,800
Other assets	**1,296,346**	1,097,728
	796,243,463	718,706,956
Total assets	**$ 860,627,756**	$ 890,095,017
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 218,027,803**	$ 239,861,449
Savings and interest-bearing demand	**509,167,452**	535,645,024
Time, $250,000 and over	**4,473,640**	5,124,113
Other time	**44,721,773**	38,400,092
	776,390,668	819,030,678
Subordinated debentures	**11,907,000**	14,957,000
Interest payable	**242,705**	180,115
Operating leases right-to-use liabilites	**623,663**	872,800
Other liabilities	**7,362,602**	5,068,848
Total liabilities	**796,526,638**	840,109,441
Stockholders' equity:		
Common stock, $2.50 par value, 2,975,592 shares authorized 1,227,030 outstanding December 31, 2023 and 1,204,323 outstanding December 31, 2022	**3,164,130**	3,153,210
Additional paid-in capital	**5,515,830**	5,055,300
Retained earnings	**62,017,162**	49,220,014
Treasury stock at cost, 38,622 and 56,961 shares outstanding	**(1,073,512)**	(1,583,153)
Accumulated other comprehensive income (loss)	**(5,522,492)**	(5,859,795)
Total stockholders' equity	**64,101,118**	49,985,576
Total liabilities and stockholders' equity	**$ 860,627,756**	$ 890,095,017

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

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2023	2022
Interest income:		
Interest and fees on loans:		
Taxable	**$ 34,847,460**	$ 27,138,019
Nontaxable	**469,390**	512,105
Interest on investment securities:		
Taxable	**8,240,093**	2,776,060
Nontaxable	**72,023**	28,055
Interest on deposits at other institutions	**2,642,707**	1,584,817
	46,271,673	32,039,056
Interest expense	**3,052,664**	1,636,963
Net interest income	**43,219,009**	30,402,093
Provision for credit losses	**-**	-
Net interest income after provision for credit losses	**43,219,009**	30,402,093
Noninterest income:		
Service charges	**3,963,785**	3,888,368
Mortgage banking income	**315,537**	488,677
Other	**457,863**	551,460
	4,737,185	4,928,505
Noninterest expense:		
Salaries and employee benefits	**19,372,336**	15,058,824
Equipment expense	**951,153**	968,343
Occupancy expense	**1,220,080**	1,171,858
Operating leases expense	**423,880**	432,140
Card processing and related expenses	**1,056,191**	896,731
Information Technology expenses	**2,375,269**	2,364,931
Professional Services and legal expenses	**596,156**	466,293
Advertising and public relations	**435,771**	361,671
Other	**2,793,126**	2,463,095
	29,223,962	24,183,886
Income before income taxes	**18,732,232**	11,146,712
Provision for income taxes	**4,524,000**	2,562,000
Net income	**$ 14,208,232**	$ 8,584,712
Basic earnings per share	**$ 11.75**	$ 7.13
Diluted earnings per share	**$ 11.36**	$ 6.66

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

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

	Year Ended December 31	
	2023	**2022**
Net Income	**$ 14,208,232**	$ 8,584,712
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities	**462,765**	(7,892,565)
Tax Effect	**(125,696)**	2,143,779
Unrealized gain (loss) on cash flow hedge instrument	**-**	588,978
Tax Effect	**-**	(164,913)
Other comprehensive income (loss)	**337,303**	(5,324,721)
Comprehensive Income	**$ 14,545,535**	$ 3,259,991

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOC Income (Loss)	Treasury Stock	Total
Balance, January 1, 2021	$ 3,153,210	$ 5,055,300	$ 41,839,625	$ (535,074)	(1,583,153)	$ 47,929,908
Net income			8,584,712			8,584,712
Other comprehensive income (loss)				(5,324,721)		(5,324,721)
Cash dividends ($1.00 per share)			(1,204,323)			(1,204,323)
Balance, December 31, 2022	3,153,210	5,055,300	49,220,014	(5,859,795)	(1,583,153)	49,985,576
Net income			**14,208,232**			**14,208,232**
Other comprehensive income (loss)				**337,303**		**337,303**
Conversion of 18,339 shares of treasury stock		**290,306**			**509,641**	**799,947**
Conversion and sale of 4,368 shares of common stock	**10,920**	**170,224**				**181,144**
Cash dividends ($1.15 per share)			**(1,411,084)**			**(1,411,084)**
Balance, December 31, 2023	**$ 3,164,130**	**$ 5,515,830**	**$ 62,017,162**	**$ (5,522,492)**	**$ (1,073,512)**	**$ 64,101,118**

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	
	2023	**2022**
Cash flows from operating activities:		
Net income	**$ 14,208,232**	$ 8,584,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**975,801**	890,366
Net gains or losses on asset dispositions	**50,196**	16
Accretion of investment discounts, net	**(609,119)**	(25,534)
Amortization of core deposit intangible	**189,519**	189,519
Increase in cash value of life insurance	**(308,698)**	(288,304)
Deferred income taxes	**(611,000)**	(190,000)
Change in:		
Interest receivable and other assets	**(1,956,778)**	(1,775,303)
Deferred loan fees and purchase discounts	**(395,741)**	(167,554)
Accrued interest and other liabilities	**2,356,577**	1,480,616
Net cash provided by operating activities	**13,898,989**	8,698,534
Cash flows from investing activities:		
Changes in interest bearing deposits at other banks	**-**	(2,205,000)
Proceeds from maturities of investment securities	**50,254,604**	10,281,749
Purchase of investment securities	**(91,451,480)**	(171,061,666)
Purchase of bank owned life insurance	**-**	(3,200,000)
Redemption (purchase) of FHLB stock	**433,100**	(185,200)
Loans purchased	**(14,424,199)**	-
Loans originated, net of principal collected	**(18,238,619)**	(22,076,115)
Purchases of property	**(1,356,160)**	(541,583)
Net cash used for investing activities	**(74,782,754)**	(188,987,815)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(42,640,010)**	65,613,291
Decrease in subordinated debt	**(3,050,000)**	-
Issuance of common stock	**981,091**	-
Dividends paid	**(1,411,084)**	(1,204,323)
Net cash (used for) provided by financing activities	**(46,120,003)**	64,408,968
Net decrease in cash and cash equivalents	**(107,003,768)**	(115,880,313)
Cash and cash equivalents, beginning of year	**171,388,061**	287,268,374
Cash and cash equivalents, end of year	**$ 64,384,293**	$171,388,061

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	
	2023	**2022**
Supplemental information:		
Cash paid during the year for:		
Income taxes	**$ 4,039,468**	$ 2,868,177
Interest	**2,990,074**	1,561,458

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" 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 credit 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", and "interest bearing deposits at other financial institutions", 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 with other financial institutions consist of the following:

	2023	2022
Time Certificates of deposit	**$ 2,205,000**	$ 2,205,000

1. Summary of Significant Accounting Policies, Continued:

A summary by maturity of time certificates of deposits at December 31, 2023 and 2022, is as follows:

	2023	2022
Due in one year or less	**$ 980,000**	$ -
Due after one year through five years	**1,225,000**	2,205,000
	$ 2,205,000	$ 2,205,000

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.

Allowance for Credit Losses (ACL) – Available-For-Sale Debt Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. The Bank's investment policy restricts available for sale investments to primarily US government sponsored agencies and high-quality municipal obligations with zero or near zero historical losses. As such, no ACL has been recorded for available-for-sale securities. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Allowance for Credit Losses – Held-to-Maturity Debt Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security types that share similar risk. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company has evaluated and determined zero risk of nonpayment on all securities guaranteed by U.S. government-sponsored enterprises and agencies. Given the rarity of municipal bond defaults and losses, the Company utilizes external third-party loss forecast models as a source of municipal bond default and loss rates.

Allowance for Credit Losses – Unfunded Commitments: The Company establishes a liability for estimated expected credit losses on unfunded commitments to originate or fund loans and standby letters of credit, excluding commitments that are unconditionally cancellable. Management has determined this amount to be insignificant and has elected not to record an amount in other liabilities.

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 credit 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 Credit Losses (ACL) - Loans: The ACL is established through a provision for credit losses charged to expense. The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change from period to period.

Management estimates the allowance balance using relevant available information, from internal and external sources, historical experience, current conditions, and reasonable and supportable forecasts. Qualitative adjustments are then considered for differences in current loan-specific risk characteristics related to micro and macro economic conditions. To appropriately measure expected credit losses, management disaggregates the loan portfolio into pools of similar risk characteristics and applies these quantitative and qualitative factors.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. In general, loans individually evaluated for estimated credit losses include those that are classified as substandard or doubtful, are on nonaccrual or have other unique characteristics differing from the portfolio segment. Specific reserves are established when appropriate for such loans based on the present value of expected future cash flows of the loan. However, when management determines that recovery is dependent on the secured collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Purchased Credit Deteriorated (PCD) Loans: The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An ACL is determined using the same methodology as other loans held for investment.

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

The initial ACL determined on a collective basis is allocated to individual loans. The difference between the initial amortized cost basis less the ACL and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Any subsequent changes to the ACL are recorded through credit loss expense.

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 asset size and borrowings. At December 31, 2023 and 2022, the minimum required investment was $575,700 and $1,008,800, respectively. 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 consolidated 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, 2023 and 2022. 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 the Bancorp's and the Bank's financial instruments fall within Levels 2 and 3 (see Note 16).

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:

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, unrealized losses related to factors other than credit on debt securities, and unrealized gains and losses on cash flow hedges 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.

Recent Accounting Guidance – On January 1, 2023, the Company adopted Accounting Standard Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended*, which replaces the incurred loss methodology with an expected loss methodology referred to as current expected credit losses ("CECL"). The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and off-balance sheet credit exposures. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities including the requirement to present credit losses as an allowance rather than a write-down on available-for-sale debt securities that management does not intend to sell or believes it is more likely than not they will be required to sell.

The Company adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded no net change to retained earnings as of January 1, 2023, as there was no material cumulative effect of adopting Topic 326.

ASU 2022-02, Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures - This ASU addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the current expected credit losses model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses model and enhance the disclosure requirements for loan refinancings, and restructurings made with borrowers experiencing financial difficulty. The company adopted ASU 2022-02 in conjunction with ASU 2016-13 on January 1, 2023 using the prospective approach.

1. Summary of Significant Accounting Policies, Continued:

Subsequent Events – The Company has evaluated subsequent events through February 23, 2024, 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. Investments Securities:

The amortized cost and estimated fair values of investment securities at December 31, 2023 is as follows:

2023

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	**$ 107,624,346**	**$ 32,455**	**$ (4,608,275)**	**$ 103,048,526**
Government guaranteed loan pools	**17,020,968**	**99,846**	**(216,856)**	**16,903,958**
Mortgage-backed securities	**112,879,842**	**293,125**	**(3,185,287)**	**109,987,680**
Obligations of municipal entities	**2,946,652**	**16,176**	**(13,389)**	**2,949,439**
	$ 240,471,808	**$ 441,602**	**$ (8,023,807)**	**$ 232,889,603**

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	**$ 2,253,259**	**$ -**	**$ (116,909)**	**$ 2,136,350**
Obligations of municipal entities	**835,000**	**-**	**-**	**835,000**
	$ 3,088,259	**$ -**	**$ (116,909)**	**$ 2,971,350**

The amortized cost and estimated fair values of investment securities at December 31, 2022 is as follows:

2022

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	$ 120,975,357	$ 72,042	$ (5,957,181)	$ 115,090,218
Government guaranteed loan pools	9,346,722	41,505	(122,569)	9,265,658
Mortgage-backed securities	67,048,913	239,442	(2,309,902)	64,978,453
Obligations of municipal entities	1,986,729	11,123	(19,430)	1,978,422
	$ 199,357,721	$ 364,112	$ (8,409,082)	$ 191,312,751

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	1,311,351	-	-	1,311,351
Obligations of municipal entities	1,085,000	-	-	1,085,000
	$ 2,396,351	$ -	$ -	$ 2,396,351

Investment securities that were in unrealized loss positions as of December 31, 2023 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, 2023					
	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	**$ 11,873,100**	**$ (60,502)**	**$ 85,233,526**	**$ (4,547,773)**	**$ 97,106,626**	**$ (4,608,275)**
Government guaranteed loan pools	**7,696,636**	**(108,102)**	**2,826,833**	**(108,754)**	**10,523,469**	**(216,856)**
Mortgage-backed securities	**52,820,767**	**(947,444)**	**32,936,138**	**(2,237,843)**	**85,756,905**	**(3,185,287)**
Obligations of municipal entities	**358,246**	**(2,329)**	**343,842**	**(11,060)**	**702,088**	**(13,389)**
Total	**$ 72,748,749**	**$ (1,118,377)**	**$ 121,340,339**	**$ (6,905,430)**	**$ 194,089,088**	**$ (8,023,807)**

Investment securities that were in unrealized loss positions as of December 31, 2022 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, 2022					
	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	$ 85,141,432	$ (3,224,812)	$ 17,981,864	$ (2,732,370)	$ 103,123,296	$ (5,957,182)
Government guaranteed loan pools	1,918,554	(35,852)	3,283,722	(86,717)	5,202,276	(122,569)
Mortgage-backed securities	49,441,117	(2,031,485)	1,424,037	(278,416)	50,865,154	(2,309,901)
Obligations of municipal entities	703,981	(19,430)	-	-	703,981	(19,430)
Total	$ 137,205,084	$ (5,311,579)	$ 22,689,623	$ (3,097,503)	$ 159,894,707	$ (8,409,082)

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. Investments are comprised of securities of U.S. government backed agencies and sponsored enterprises or are high quality municipal obligations with a history of zero or near zero credit losses. None of the investment securities have a history of past due payments. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Accordingly, management has determined that the expected credit loss is immaterial and therefore, an allowance was not carried on any securities in the portfolio at December 31, 2023. 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 decline in value in any of these securities is deemed to be temporary and not attributable to credit losses.

The amortized cost and estimated fair value of investment securities at December 31, 2023 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	$ 6,540,571	$ 6,490,446	$ 125,000	$ 125,000
Due after one year through five years	92,713,616	89,963,318	710,000	710,000
Due after five years	28,286,357	26,396,737	-	-
Mortgage-backed securities	112,931,264	110,039,102	2,253,259	2,253,259
	$ 240,471,808	$ 232,889,603	$ 3,088,259	$ 3,088,259

At December 31, 2023 and December 31, 2022 there were no securities pledged for public deposits.

There were no proceeds from sales of available-for-sale securities during the years ended December 31, 2023 and 2022.

4. Loans and Allowance for Credit Losses:

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

	2023	2022
Farmland Loans	**$ 147,813,719**	$ 134,966,687
Commercial real estate loans	**91,047,436**	100,227,017
Agriculture loans	**171,805,896**	146,778,504
Commercial construction loans	**6,579,819**	6,446,851
Commercial loans	**64,884,374**	62,238,985
Real estate loans	**29,570,603**	24,986,249
Real estate construction loans	**14,723,471**	16,209,234
Consumer loans	**3,818,245**	3,314,749
	530,243,563	495,168,276
Deferred loan origination fees	**(940,139)**	(924,611)
Purchased loans discount	**(1,408,569)**	(1,349)
	527,894,855	494,242,316
Allowance for credit losses	**(6,028,070)**	(5,434,090)
	$ 521,866,785	$ 488,808,226

The loan portfolio at December 31, 2023 and 2022 includes $378,376,269 and $366,763,850 of loans which have a variable rate of interest. The December 31, 2023 and 2022 amount includes $144,057,524 and $166,791,071 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheet. There were $1,536,243 and $1,557,780 in loans being serviced for others at December 31, 2023 and 2022, respectively.

The following table presents loans purchased during the years ended December 31, 2023 and 2022:

	Purchased Loans	
	2023	2022
Par Value at Acquisition:		
Agriculture loans	**6,146,214**	-
Commercial loans	**9,082,212**	-
Real estate loans	**1,179,065**	-
Consumer loans	**335,468**	-
	16,742,959	-
Allowance for Credit Losses at Acquisition	**(500,000)**	-
Noncredit Discount at Acquisition	**(1,818,760)**	-
Purchase Price at Acquisition	**14,424,199**	**-**

4. Loans and Allowance for Credit Losses, Continued:

The total loans outstanding on December 31, 2023 and 2022 which were on a nonaccrual basis, contractually past due 30-89 days and 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	Total Non Accrual		Nonaccrual with No Allowance for Credit Loss
	12/31/2023	12/31/2023	12/31/2022	12/31/2023	12/31/2023
Agriculture	$ 164,677	$ -	$ 911,532	$ 1,033,387	$ 720,125
Commercial real estate	283,875	-	1,634,496	1,500,478	1,500,478
Commercial	516,013	-	459,257	84,200	84,200
Farmland	1,333,745	-	$ 1,691,443	490,080	490,080
Real Estate	71,660	-	519,952	153,726	153,726
	$ 2,369,970	$ -	$ 5,216,680	$ 3,261,871	$ 2,948,609

There were no loans 30-89 days past due, and there were no loans past due 90 days or more and still accruing interest at December 31, 2022. The unpaid principal balance in non-accrual loans at December 31, 2022 was $5,230,031.

The following table represents the amortized cost basis of collateral dependent loans as of December 31, 2023 by collateral type:

2023	Collateral Dependent Loans by Collateral Type			
	Real Estate	Chattels	Chattels and 2nd lien RE	Total
Farmland	$ 1,190,103	$ -	$ -	$ 1,190,103
Commercial real estate	1,549,071	-	-	1,549,071
Agriculture	-	341,982	1,268,551	1,610,533
Commercial	-	-	84,200	84,200
Real estate	153,726	-	-	153,726
	$ 2,892,900	$ 341,982	$ 1,352,751	$ 4,587,633

Collateral dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and there are no other available and reliable sources of repayment. The net realizable value of the collateral after selling costs is used to determine the loss potential on collateral dependent loans.

4. Loans and Allowance for Credit Losses, Continued:

Occasionally the Bank modifies loans to borrowers in financial distress by providing term extension, interest rate reduction or other-than-insignificant payment delay. In some cases, the Bank provides multiple types of concessions on one loan.

There were no modified loans with an outstanding cost basis at December 31, 2023. The Bank manages its loan portfolio proactively to effectively identify problem credits and assess trends early, implement effective workout strategies, and take charge-offs as promptly as practical. In addition, the Bank continuously reassess its underwriting standards in response to credit risk posed by changes in economic conditions.

The Bank maintains an allowance for credit losses ("ACL") to absorb losses resulting from the inherent risks of lending. The balance of the ACL is reviewed at least quarterly to assess the adequacy relative to probable estimated losses within the loan portfolio. Quantitative factors from historical losses in loan segments, both local and national, are considered, as well as various qualitative factors for current and expected economic conditions are assessed and included in the calculation of the ACL adequacy. For purposes of determining the ACL on loans, the Bank disaggregates its loans into portfolio segments that stratify the loans by unique risk characteristics. Credit risk is managed through established policies and procedures including lending limits, diversification, approval requirements, and an ongoing comprehensive review process.

The following table presents the activity in the ACL by portfolio segment for the year ended December 31, 2023:

2023	**Allowance for Credit Losses**					
	Beginning Balance	**Impact of adopting ASC 326**	**Net (Charge-off) Recovery**	**Credit Loss Expense**	**Purchased Credit Losses**	**Ending Balance**
Farmland	$ 1,223,406	$ -	$ -	$ -	$ 135,000	$ 1,358,406
Commercial real estate	830,859	-	30,052	-	-	$ 860,911
Agriculture	1,729,227	-	25,000	-	325,000	$ 2,079,227
Commercial construction	111,320	-	-	-	-	$ 111,320
Commercial	833,688	-	47,431	-	-	$ 881,119
Real estate	324,942	-	-	-	-	$ 324,942
Real estate construction	364,144	-	-	-	-	$ 364,144
Consumer	16,504	-	(8,503)	-	40,000	$ 48,001
Total	$ 5,434,090	$ -	$ 93,980	$ -	$ 500,000	$ 6,028,070

In addition to the ACL on loans, the Company has established an ACL on off-balance sheet exposures of $25,000 at December 31, 2023 and $25,000 at December 31, 2022.

4. Loans and Allowance for Credit Losses, Continued:

The detailed analysis of the Allowance for Loan Losses for December 31, 2022 (prior to the adoption of ASC 326) by major portfolio segment is as follows:

2022			Allowance for Loan Losses					
	Weighted Average Risk Rating	Gross Recorded Investment in Loans	Beginning Balance	Net (Charge-off) Recovery	Provision	Ending Balance	Specific Reserve	General Allocation
Farmland	3.03	$ 134,966,687	$ 1,013,406	$ -	$ 210,000	$ 1,223,406	$ -	$ 1,223,406
Commercial real estate	2.85	100,227,017	898,910	21,949	(90,000)	$ 830,859	-	$ 830,859
Agriculture	2.96	146,778,504	1,694,227	-	35,000	$ 1,729,227	-	$ 1,729,227
Commercial construction	3.00	6,446,851	211,320	-	(100,000)	$ 111,320	-	$ 111,320
Commercial	2.72	62,238,985	821,526	17,162	(5,000)	$ 833,688	-	$ 833,688
Real estate	2.94	24,986,249	324,942	-	-	$ 324,942	-	$ 324,942
Real estate construction	2.99	16,209,234	369,144	-	(5,000)	$ 364,144	-	$ 364,144
Consumer	3.12	3,314,749	61,504	-	(45,000)	$ 16,504	-	$ 16,504
Total	2.96	$ 495,168,276	$ 5,394,979	$ 39,111	$ -	$ 5,434,090	$ -	$ 5,434,090

	Loan Balances	
	Individually Impaired Loans	Collectively Impaired Loans
Farmland	$ 2,846,471	$ 132,120,216
Commercial real estate	1,638,335	98,588,682
Agriculture	1,251,310	145,527,194
Commercial construction	-	6,446,851
Commercial	1,155,094	61,083,891
Real estate	-	24,986,249
Real estate construction	-	16,209,234
Consumer	-	3,314,749
Total	$ 6,891,210	$ 488,277,066

The review process for determining the ACL 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 1-3 indicates low apparent credit risk and are considered pass loans.
A rating of 4 indicates below average potential credit risk and are considered pass loans unless specifically identified on management's watch list.
A rating of 5 indicates weaknesses and factors displaying potential credit risk that requires a higher level of management attention and are considered watch loans.
A rating of 6 indicates a probable loss but the amount is not specifically determined and is considered substandard.
A rating of 7 indicates specific loss has been identified and charge-off is imminent and is considered doubtful.

4. Loans and Allowance for Credit Losses, Continued:

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2023 is as follows:

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Farmland Loans						
Pass	$ 16,820,051	$ 23,613,409	$ 25,170,022	$ 59,582,175	$ 18,767,041	$ 143,952,698
Watch	2,730,564	640,377	-	-	-	$ 3,370,941
Substandard	-	-	-	490,080	-	$ 490,080
Doubtful	-	-	-	-	-	$ -
Total	$ 19,550,615	$ 24,253,786	$ 25,170,022	$ 60,072,255	$ 18,767,041	$ 147,813,719
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans						
Pass	$ 6,555,528	$ 10,773,233	$ 17,848,712	$ 34,478,124	$ 19,472,886	$ 89,128,483
Watch	418,475	-	-	-	-	$ 418,475
Substandard	-	-	-	1,500,478	-	$ 1,500,478
Doubtful	-	-	-	-	-	$ -
Total	$ 6,974,003	$ 10,773,233	$ 17,848,712	$ 35,978,602	$ 19,472,886	$ 91,047,436
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture loans						
Pass	$ 2,330,648	$ 3,921,855	$ 1,523,818	$ 879,454	$ 155,699,806	$ 164,355,581
Watch	152,941	318,084	3,542,383	195,924	2,170,545	$ 6,379,877
Substandard	-	-	-	1,070,438	-	$ 1,070,438
Doubtful	-	-	-	-	-	$ -
Total	$ 2,483,589	$ 4,239,939	$ 5,066,201	$ 2,145,816	$ 157,870,351	$ 171,805,896
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial construction loans						
Pass	$ 170,068	$ 390,691	$ 515,206	$ 328,854	$ 5,175,000	$ 6,579,819
Watch	-	-	-	-	-	$ -
Substandard	-	-	-	-	-	$ -
Doubtful	-	-	-	-	-	$ -
Total	$ 170,068	$ 390,691	$ 515,206	$ 328,854	$ 5,175,000	$ 6,579,819
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial loans						
Pass	$ 6,099,024	$ 518,412	$ 4,816,617	$ 5,107,543	$ 47,637,969	$ 64,179,565
Watch	168,501	11,021	-	332,734	49,926	$ 562,182
Substandard	-	-	-	142,627	-	$ 142,627
Doubtful	-	-	-	-	-	$ -
Total	$ 6,267,525	$ 529,433	$ 4,816,617	$ 5,582,904	$ 47,687,895	$ 64,884,374
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Real estate loans						
Pass	$ 2,941,793	$ 3,248,368	$ 3,544,616	$ 7,155,999	$ 12,263,509	$ 29,154,285
Watch	-	-	-	262,592	-	$ 262,592
Substandard	-	-	-	153,726	-	$ 153,726
Doubtful	-	-	-	-	-	$ -
Total	$ 2,941,793	$ 3,248,368	$ 3,544,616	$ 7,572,317	$ 12,263,509	$ 29,570,603
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -

4. Loans and Allowance for Credit Losses, Continued:

	Term Loans Amortized Cost Basis by Origination Year					
	2023	**2022**	**2021**	**Prior**	**Revolving Loans**	**Total**
Real estate construction loans						
Pass	**$ 6,404,902**	**$ 1,744,401**	**$ 669,209**	**$ 841,998**	**$ 1,390,123**	**$ 11,050,633**
Watch	**-**	**1,361,915**	**2,310,923**	**-**	**-**	**$ 3,672,838**
Substandard	**-**	**-**	**-**	**-**	**-**	**$ -**
Doubtful	**-**	**-**	**-**	**-**	**-**	**$ -**
Total	**$ 6,404,902**	**$ 3,106,316**	**$ 2,980,132**	**$ 841,998**	**$ 1,390,123**	**$ 14,723,471**
Current period gross charge offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Consumer loans						
Pass	**$ 150,664**	**$ 37,959**	**$ 86,271**	**$ 71,567**	**$ 3,471,784**	**$ 3,818,245**
Watch	**-**	**-**	**-**	**-**	**-**	**$ -**
Substandard	**-**	**-**	**-**	**-**	**-**	**$ -**
Doubtful	**-**	**-**	**-**	**-**	**-**	**$ -**
Total	**$ 150,664**	**$ 37,959**	**$ 86,271**	**$ 71,567**	**$ 3,471,784**	**$ 3,818,245**
Current period gross charge offs	**$ -**	**$ -**	**$ -**	**$ -**	**$ 8,603**	**$ -**

During the year ended December 31, 2023, no revolving notes converted to term notes.

The risk profile by internally assigned grade at December 31, 2022 (prior to the adoption of ASC 326) was:

2022	Pass	Watch	Substandard	Doubtful	Total
Commercial					
Commercial	$ 59,904,664	$ 1,879,483	$ 454,838	$ -	$ 62,238,985
Commercial construction	6,446,851	-	-	-	6,446,851
Commercial Real Estate					
Commercial real estate	95,944,975	2,493,499	1,788,543	-	100,227,017
Agriculture					
Farmland	130,469,194	2,434,378	2,063,115	-	134,966,687
Agriculture	143,766,226	2,379,547	632,731	-	146,778,504
	$ 436,531,910	$ 9,186,907	$ 4,939,227	$ -	$ 450,658,044

	Performing	Nonperforming
Residential Real Estate		
Real estate loans	$ 24,466,333	$ 519,916
Real estate construction loans	16,209,234	-
Consumer		
Consumer loans	3,314,749	-
	$ 43,990,316	$ 519,916

5. Property and Equipment:

Property and Equipment at December 31 consists of the following:

	2023	2022
Land	**$ 865,464**	$ 865,464
Buildings and improvements	**11,289,098**	10,548,453
Furniture and equipment	**5,353,311**	5,079,296
	17,507,873	16,493,213
Accumulated depreciation	**(8,697,593)**	(8,013,096)
	$ 8,810,280	$ 8,480,117

Depreciation expense of $975,801 and $890,366 was recognized in the years ending December 31, 2023 and 2022, respectively.

6. Core Deposit Intangible:

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

	2023	2022
Beginning Purchased Cost	**$1,895,190**	$ 1,895,190
Accumulated amortization	**(1,060,862)**	(871,343)
	$ 834,328	$ 1,023,847

Forecasted amortization is as follows:

2024	**189,519**
2025	**159,141**
2026	**157,515**
2027	**157,515**
2028	**157,515**
Thereafter	**13,123**

7. Other Assets:

Other assets consist of the following as of December 31:

	2023	2022
Prepaid expenses	**$ 688,330**	$ 510,885
Investment in unconsolidated subsidiaries (Trusts) (Note 11)	**217,000**	217,000
Other equity securities	**190,425**	190,425
Other items, net	**200,591**	179,418
	$ 1,296,346	$ 1,097,728

8. Deposits:

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

	2023	2022
Less than one year	**$ 38,161,253**	$ 27,191,483
One to three years	**10,649,534**	14,951,351
Over three years	**384,626**	1,381,371
	$ 49,195,413	$ 43,524,205

9. Borrowings:

At December 31, 2023, the Bank has unused credit available totaling approximately $218,000 from the Federal Home Loan Bank of Des Moines (FHLB), $33,000,000 of federal funds lines with correspondent banks and $110,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2023. The Bank has an outstanding letter of credit for $41,500,000 with FHLB as collateral for specific municipal deposits having balances in excess of FDIC insurance limits.

At December 31, 2022, the Bank had unused credit available totaling approximately $19,454,000 from the Federal Home Loan Bank of Des Moines (FHLB), $42,000,000 of federal funds lines with correspondent banks and $745,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2022. The Bank has an outstanding letter of credit for $24,000,000 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.

10. Subordinated Debentures:

As of December 31, 2023, 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.

10. Subordinated Debentures, Continued:

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, 2023 and 2022 are reflected as subordinated debentures in the consolidated balance sheet. The common stock issued by the Trusts is recorded in other assets (Note 7).

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 to local investors within Bancorp's market area. The B Notes are convertible into common stock at 85% of the sixty-day weighted average price at the time of the election. During 2023, approximately $950,000 was converted into 3,158 shares of newly issued common stock and 18,339 shares of treasury stock. During 2022, no Notes were converted to stock.

In the fourth quarter of 2020 through 2021 a private offering of 4% Subordinated Notes ("C Notes") were issued with local investors. These Notes carry varying maturities and may be extended upon mutual agreement of both parties.

A summary of the terms of all outstanding subordinated debentures at December 31, 2023 and 2022 are as follows:

2023

	BEO Trust I	BEO Trust II	B Notes	C Notes
Outstanding	$4,124,000	$3,093,000	$2,130,000	$2,560,000
Issued	December 17, 2003	March 17, 2005	2019 to 2021	2020 and 2021
Maturity	December 17, 2033	March 17, 2035	2024 to 2025	2024 and 2024
Interest rate	SOFR+2.85%	SOFR+1.90%	4.0%	4.0%
	(8.52% at 12/31/2023)	(7.57% at 12/31/2023)		

2022

	BEO Trust I	BEO Trust II	B Notes	C Notes
Outstanding	$4,124,000	$3,093,000	$3,180,000	$4,560,000
Issued	December 17, 2003	March 17, 2005	2019 to 2021	2020 and 2021
Maturity	December 17, 2033	March 17, 2035	2024 to 2025	2024 and 2024
Interest rate	LIBOR+2.85%	LIBOR+1.90%	4.0%	4.0%
	(7.58% at 12/31/2022)	(6.64% at 12/31/2022)		

11. 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 $1,467,901 and $879,233 in 2023 and 2022. During 2023, the plan purchased 13,463 shares of BEO Bancorp stock at a cumulative purchase price of $609,953. At December 31, 2023, the plan held 145,859 Bancorp shares, all of which were allocated to participants. During 2022, the plan purchased 3,397 shares of BEO Bancorp stock at a cumulative purchase price of $135,394.

12. 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, 2023, are $25,756,593. At December 31, 2023, the Bank recorded a salary continuation benefit obligation included in other liabilities of $1,931,641. During 2023, $122,471 was paid in benefits and the amount of expenses charged was $211,043. Aggregate death benefits under the plan at December 31, 2022, were $25,700,766. At December 31, 2022, the Bank recorded a salary continuation benefit obligation included in other liabilities of $1,842,714. During 2022, $122,471 was paid in benefits and the amount of expenses charged was $209,767.

13. Income Taxes:

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

	2023	2022
Current tax expense:		
Federal	**$ 3,807,000**	$ 2,090,000
State	**1,328,000**	662,000
	5,135,000	2,752,000
Deferred tax expense (benefit):		
Federal	**(450,000)**	(140,000)
State	**(161,000)**	(50,000)
	(611,000)	(190,000)
	$ 4,524,000	$ 2,562,000

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:

	2023	2022
Tax on income at federal statutory rate (21%)	**$ 3,933,768**	$ 2,340,810
State income tax, net of federal benefit	**1,048,880**	522,656
Nontaxable interest income, net of allocable interest expense	**(121,549)**	(112,102)
Other, net	**(337,099)**	(189,364)
	$ 4,524,000	$ 2,562,000

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:

	2023	2022
Deferred compensation not deducted for tax purposes	**$ (25,382)**	$ (24,974)
Loan origination costs	**44,076**	16,069
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	**(173,498)**	(99,286)
Depreciation and amortization	**(21,506)**	(127,095)
Reserve for health insurance costs	**(347,304)**	-
Other, net	**(87,386)**	45,286
	$ (611,000)	$ (190,000)

13. Income Taxes, Continued:

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

	2023	**2022**
Assets:		
Allowance for credit losses	**$ 1,511,523**	$ 1,220,751
Deferred compensation	**624,280**	554,221
Purchased NOL carryforward	**267,893**	287,028
Reserve for health insurance costs	**347,304**	-
Unrealized loss on investment securities available-for-sale	**2,059,479**	2,185,175
Unrealized loss on cash flow hedge instrument	**-**	-
Total deferred tax assets	**4,810,479**	4,247,175
Liabilities:		
Loan origination costs	**155,059**	110,821
Excess tax over book depreciation, amortization and impairment charges	**394,817**	372,929
Prepaid expenses	**91,124**	79,250
Total deferred tax liabilities	**641,000**	563,000
Net deferred tax assets	**$ 4,169,479**	$ 3,684,175

The Company files income tax returns in the U.S federal jurisdiction and in the states of Oregon and Idaho. The Company recognized no interest and penalties on the underpayment of income taxes during the years ended December 31, 2023 and 2022 and had no accrued interest and penalties on the consolidated balance sheet as of December 31, 2023 and 2022.

14. 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:

	2023	2022
Commitments to extend credit	**$ 190,585,000**	$ 175,079,864
Standby letters of credit and financial guarantees written	**3,771,123**	3,005,193

15. 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, 2023 and 2022 were as follows:

	2023	2022
Balance, January 1	**$ 871,336**	$ 1,041,388
Net additions or renewals	**286,294**	458,730
Amounts collected or renewed	**(558,696)**	(628,782)
Balance, December 31	**$ 598,934**	$ 871,336

In addition, there were $907,541 and $880,897, respectively, in commitments to extend credit to directors and officers at December 31, 2023 and 2022, which are included as part of commitments in Note 15.

Directors' and officers' deposits totaled $6,705,405 and $4,757,439 at December 31, 2023 and 2022, respectively.

16. 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:

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 64,384,293**	**$ 64,384,293**	$ 171,388,061	$ 171,388,061
Interest bearing deposits at banks	**2,205,000**	**2,205,000**	2,205,000	$ 2,205,000
Investment securities	**235,977,862**	**235,860,953**	193,709,102	$ 193,709,102
Loans, net of allowance for credit losses	**521,866,785**	**513,527,490**	488,808,226	479,830,689
Interest receivable	**7,975,609**	**7,975,609**	6,217,448	6,217,448
Federal Home Loan Bank stock	**575,700**	**575,700**	1,008,800	1,008,800
Financial liabilities:				
Deposits	**776,390,668**	**773,845,573**	819,030,678	817,575,580
Trust Preferred Securities	**7,217,000**	**6,754,465**	7,217,000	7,791,996
Other subordinated debentures	**4,690,000**	**3,943,050**	7,740,000	6,993,050
Accrued interest payable	**242,705**	**242,705**	180,115	180,115

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.

16. Fair Value Disclosures of Financial Instruments:

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 tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value:

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.

		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
December 31, 2023					
Recurring items, assets (liabilities):					
Investment securities available for sale	$ 232,889,603	$ -	$ 232,889,603	$ -	-
Total items measured at fair value on a recurring basis	$ 232,889,603	$ -	$ 232,889,603	$ -	
Non-recurring items:					
Loans valued at fair value	$ 313,262	$ -	$ -	$ 313,262	-
Total items measured at fair value on a non-recurring basis	$ 313,262	$ -	$ -	$ 313,262	

16. Fair Value Disclosures of Financial Instruments, Continued:

		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
December 31, 2022					
Recurring items, assets (liabilities):					
Investment securities available for sale	191,312,751	-	191,312,751	-	-
Total items measured at fair value on a recurring basis	$ 191,312,751	$ -	$ 191,312,751	$ -	-

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.

16. Fair Value Disclosures of Financial Instruments, Continued:

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

	Loans valued at fair value	Foreclosed assets	Total
Balance 12/31/21	163,185	-	163,185
Net unrealized gains (losses)	-	-	-
Net realized gains (losses)	-	-	-
Additions, collections and deletions, net	(163,185)	-	(163,185)
Transfers between Level III at fair value	-	-	-
Sales	-	-	-
Balance 12/31/22	$ -	$ -	-
Net unrealized losses	-	-	-
Net realized gains (losses)	-	-	-
Additions, collections and deletions, net	313,262	-	313,262
Transfers between Level III at fair value	-	-	-
Sales	-	-	-
Balance 12/31/23	**$ 313,262**	**$ -**	**$ 313,262**

The following table presents quantitative information about non-recurring Level 3 fair value measurements at December 31, 2023. There were no non-recurring level 3 fair value measurements at December 31, 2022

	2023	**Valuation Technique**	**Unobservable**	**Range**
Loans valued at fair value	**$ 313,262**	Collateral Value	Cost to sale	5%-10%

17. 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 2026 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 $396,199 for the year ended December 31, 2023 and $363,120 for the year ended December 31, 2022.

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

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	**388,655**	$ 404,179
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	**-**	$ -

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

Weighted-average remaining lease term		
Operating leases	**2.67**	3.01
Weighted-average discount rate		
Operating leases	**5.97%**	6.02%

17. Leases, Continued:

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 2023.

	Operating
2024	**$ 267,954**
2025	**243,745**
2026	**122,327**
2027	**5,250**
2028	**-**
Thereafter	**-**
Total lease payments	**639,276**
Less interest	**15,613**
Present value of lease liabilities	**$ 623,663**

18. 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 $2,254,349 and $2,200,906 of interchange income which is within the scope of ASC 606, and service charges on deposit accounts in the amount of $629,574 and $765,152, for the years ended December 31, 2023 and 2022, respectively. Mortgage banking income totals $315,537 and $488,677 and the remaining balances of $1,537,725 and $1,473,770 represent other miscellaneous income, for the years ended December 31, 2023 and 2022, 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.

19. Regulatory Matters:

The Bank is subject to various regulatory capital requirements administered by the state and 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.

19. Regulatory Matters, Continued:

At December 31, 2023 and 2022, 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. The Bank has also opted into the Community Bank Leverage Ratio (CBLR) framework At December 31, 2023 and 2022, the Bank's CBLR ratio was 9.58% and 8.41%, respectively, which exceeded all regulatory capital requirements under the CBLR framework, and the Bank was considered to be "well-capitalized."

Under this final rule, banks and their bank holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9%, are eligible to opt into the CBLR framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Accordingly, a qualifying community banking organization that exceeds the 9% CBLR will be considered to have met: (i) the generally applicable risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; (iii) any other applicable capital or leverage requirements. A qualifying community banking organization that elects to be under the CBLR framework generally would be exempt from the current capital framework, including risk-based capital requirements and capital conservation buffer requirements. A banking organization meets the definition of a "qualifying community banking organization" if the organization has:

- A leverage ratio of greater than 9%
- Total consolidated assets of less than $10 billion
- Total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets; and
- Total trading assets plus trading liabilities of 5% or less of total consolidated assets

Even though a banking organization meets the above-stated criteria, federal banking regulators have reserved the authority to disallow the use of the CBLR framework by a depository institution or depository institution holding company, based on the risk profile of the banking organization.

20. 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 10).

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

	2023	2022
Numerator:		
Net earnings	**$ 14,208,232**	$ 8,584,712
Adjustment for interest expense on convertible notes, net of tax effect	**61,344**	93,744
Net earnings, adjusted	**$ 14,269,576**	$ 8,678,456
Denominator:		
Basic weighted average shares	**1,209,217**	1,204,323
Dilution for convertible notes	**47,280**	99,206
Diluted weighted average shares	**1,256,497**	1,303,529
Basic EPS	**$11.75**	$7.13
Diluted EPS	**$11.36**	$6.66

21. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEET

	December 31	
	2023	**2022**
Assets:		
Cash, deposited with the Bank	**$ 93,039**	$ 962,346
Investments in:		
Bank subsidiary	**75,737,922**	63,841,529
Nonbank subsidiaries (Trusts)	**217,000**	217,000
Other assets, net of amortization	**15,600**	1
	$ 76,063,561	$ 65,020,876
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	**$ 55,443**	$ 78,300
Subordinated debt	**11,907,000**	14,957,000
Total liabilities	**11,962,443**	15,035,300
Stockholders' equity:		
Common stock	**3,164,130**	3,153,210
Surplus	**5,515,830**	5,055,300
Retained earnings and accumulated other comprehensive income	**56,494,670**	43,360,219
Treasury stock at cost (38,622 shares)	**(1,073,512)**	(1,583,153)
Total stockholders' equity	**64,101,118**	49,985,576
Total liabilities and stockholders' equity	**$ 76,063,561**	$ 65,020,876

21. Parent Company Financial Information, Continued:

STATEMENT OF INCOME

	Year Ended December 31	
	2023	**2022**
Cash dividends from Bank	**$ 1,411,084**	$ 1,804,323
Less:		
Interest expense	**(811,650)**	(673,229)
Professional fees and administrative expenses	**(150,526)**	(127,291)
Income (loss) before equity in undistributed earnings of the Bank	**448,908**	1,003,803
Equity in undistributed earnings of Bank	**13,559,324**	7,380,909
Credit for income taxes	**200,000**	200,000
Net income	**$ 14,208,232**	$ 8,584,712

21. Parent Company Financial Information, Continued:

STATEMENT OF CASH FLOWS

	Year Ended December 31	
	2023	**2022**
Operating activities:		
Net income	**$ 14,208,232**	$ 8,584,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	**(13,559,324)**	(7,380,909)
Change in other assets and liabilities	**(38,222)**	17,976
Net cash provided by operating activities	**610,686**	1,221,779
Investing activities:		
Investment in Subsidiaries	**2,000,000**	-
Financing activities:		
Issuance (Retirement) of subordinated debt	**(3,050,000)**	-
Issuance of Common Stock	**981,091**	-
Dividends paid	**(1,411,084)**	(1,204,323)
Net cash provided (used) by financing activities	**(3,479,993)**	(1,204,323)
Net increase (decrease) in cash	**(869,307)**	17,456
Cash, beginning of year	**962,346**	944,890
Cash, end of year	**$ 93,039**	$ 962,346