BEO BANCORP

Annual Report 2024

BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditor's Report

Years Ended December 31, 2024 and 2023

C O N T E N T S

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 2024 and 2023.

Your Bank continues to grow and prosper. 2024 earnings set another record for net income at $16.49 million, up 16.1% from 2023, our previous best year. Net loans were up 11.1% to $580.0 million, with deposits down 0.7% at $770.7 million. Total assets increased 0.8% coming in at $867.6 million. . Return on Average Assets (ROAA) for 2024 was 1.91% compared to 1.62% in 2023 an increase of 17.8%; Return on Average Equity (ROAE) is also strong at 22.71% down slightly from 2023's 24.91%. This is attributable to a robust increase in shareholder equity from $64.1 million to $80.8 million in 2024. Net earnings per share was $13.40 up 14.0% from $11.75 in 2023. We also paid our largest dividend ever of $1.25 per share.

Strong, steady liquidity and capitalizing on opportunities in our investment portfolio have contributed to net income. Earning assets were at all-time highs and effective management of the expense side of the equation contributed to our record earnings. We did have one large non-recurring income item that accounted for approximately $950,000 in additional after-tax income realized in the 4th quarter of 2024.

In terms of growth, in December we opened a full-service bank branch in Pendleton. We now have twenty-two branches and two loan production offices.

2024 was a tougher year for grain, row crop, and hay growers as commodity prices dropped, while expenses remained elevated. This is showing up in tighter margins and some carryover situations. Agriculture is a cyclical business and over the years our producers and your Bank have weathered those cycles. Cattle prices continue strong driven by tight supply.

I am extremely proud of our employees for collectively delivering great customer service and supporting our communities in a manner that allows your Bank to thrive at a time when many Banks have struggled.

We plan to have our shareholder meeting at 7:00pm on Tuesday, April 29, 2025, at the Gilliam Bisbee building located in Heppner, OR at 106 E. May St. We plan to elect two directors, consider an increase in authorized shares, review 2024, and look ahead to 2025. All shareholders are of course invited to attend.

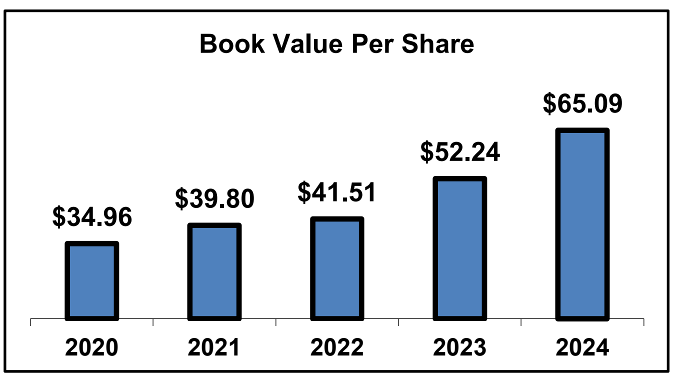
As always, thank you for your investment in BEO Bancorp and Bank of Eastern Oregon.

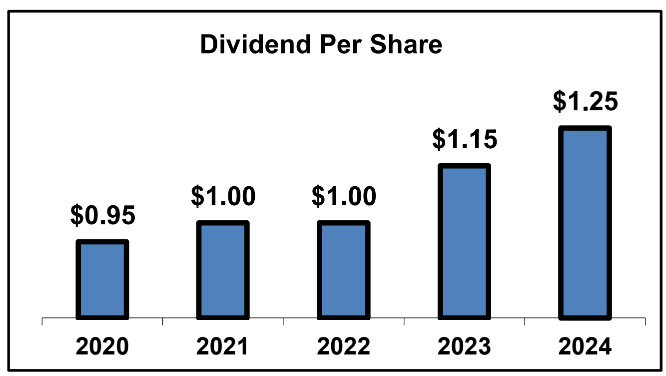
Sincerely,

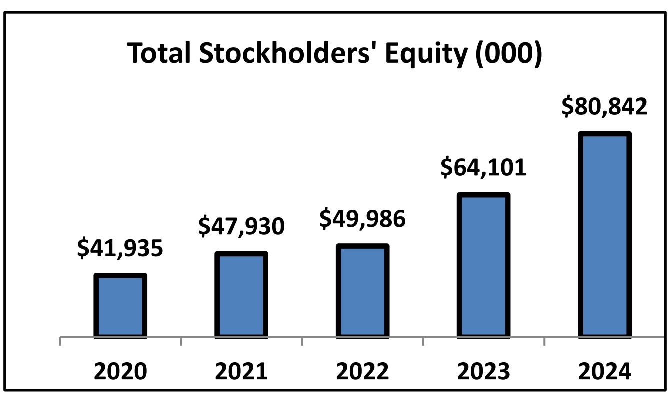
Jeff L. Bailey
President and CEO
BEO Bancorp

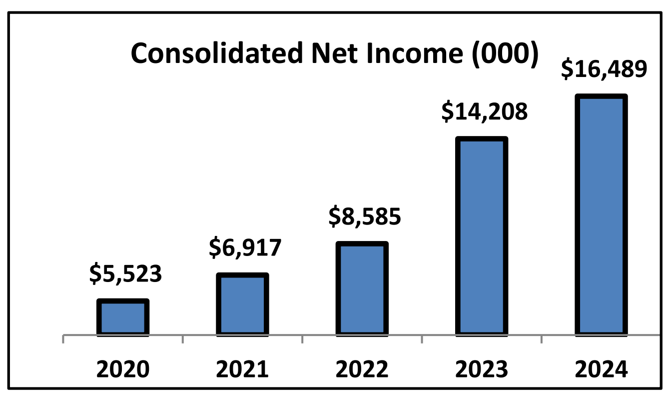
FINANCIAL HIGHLIGHTS
2020-2024

	2020	2021	2022	2023	2024
Net Income (000)	$5,523	$6,917	$8,585	$14,208	$16,489
Total Assets (000)	$666,699	$821,592	$890,095	$860,628	$867,604
Total Equity (000)	$41,935	$47,930	$49,986	$64,101	$80,842
Return on Average Assets	0.95%	0.93%	1.00%	1.62%	1.91%
Return on Average Equity	13.88%	15.39%	17.54%	24.91%	22.75%
Net Income Per Share	$4.66	$5.74	$7.13	$11.75	$13.40
Dividend Per Share	$0.95	$1.00	$1.00	$1.15	$1.25
GAAP Book Value Per Share	$34.96	$39.80	$41.51	$52.24	$65.09
Book Value Per Share before termporary adjustment for Accumulated Other Comprehensive Loss	$35.53	$40.25	$46.38	$56.74	$68.84









Board of Directors:

Robert M. Armstrong, Chairman	CPA, Solutions, CPA's
Gabrielle Homer, Vice Chair	Financial Controller, Painted Hills Natural Beef
Brad Anderson	Partner, Triangle Ranches
Jeff Bailey	Banker, Bank of Eastern Oregon
Josh Burns	Project Manager, Umatilla Electric Co-op
Marie Cain	Manager of Accounting, Umatilla Electric Co-op
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
Lucy Sifuentez, Branch Administrator & Security Officer
Tracy Hamby, Team Lead Loan Officer
Mike Short, Team Lead Loan Officer
Robert Williams, Team Lead Loan Officer

Vice Presidents:

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

Assistant Vice Presidents:

Jeremy Arbogast, IT
Caitlynn Berglund, Audit Specialist & ISO
Ashley Delacruz, Team Lead & Branch Manager
Jon McPhee, Loan Officer
Melissa Pierson, Electronic Banking Manager
Raymond Seastone, Construction Loan Officer
Laurie Barrow, Electronic Banking Specialist
Jennifer Berry, Consumer Loan Officer
Shelly Hankins, Team Lead & Branch Manager
Heidi Nelson, IT
Sharon Rietmann, Branch Manager

Lenders and Managers

Tressie Allen, Branch Manager
Kendra Butterfield, Loan Officer
Adrian Green, Loan Officer
Jay Hart, Loan Officer
Sherrie Modey, Branch Manager
Rocio Orozco, Branch Manager
Lori Whitbeck, Branch Manager
Dustin Winn, Team Lead and Branch Manager
Andrea Austinson, Branch Manager
Kolby Currin, Loan Officer
Marissa Gutierrez, Branch Manager
Chelsie Messenger, Branch Manager
Debi Munck, Branch Manager
Melissa Samms, Team Lead and Branch Manager
Vanessa Williamson, Branch Manager

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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, 2024 and 2023, and the related consolidated statements of income, profits and other comprehensive income, changes in stockholders' 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, 2024 and 2023, 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.

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 24, 2025

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

	December 31 2024	December 31 2023
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 4,383,590**	$ 4,020,612
Interest bearing deposits at other financial institutions	**28,450,064**	60,363,681
Total cash and cash equivalents	**32,833,654**	64,384,293
Interest bearing deposits at banks	**1,225,000**	2,205,000
Investment securities available-for-sale, at fair value (amortized cost 2024 , $218,135,457, 2023 - $240,471,808 net of allowance for credit losses 2024 - $0, 2023 - $0)	**211,749,073**	232,889,603
Investment securities held-to-maturity, net of allowance for credit losses 2024 - $0, 2023 - $0	**2,982,301**	3,088,259
Loans, less allowance for credit losses 2024 - $6,811,655, 2023 - $6,028,070	**580,031,798**	521,866,785
Interest receivable	**9,516,896**	7,975,609
Federal Home Loan Bank stock	**553,000**	575,700
Property, less accumulated depreciation	**9,751,480**	8,810,280
Deferred taxes, net	**4,165,670**	4,169,479
Core deposit intangible, net of accumulated amortization	**644,808**	834,328
Cash surrender value of bank owned life insurance	**12,257,609**	11,908,411
Operating leases right-to-use assets	**634,246**	623,663
Other assets	**1,258,385**	1,296,346
	834,770,266	796,243,463
Total assets	**$ 867,603,920**	$ 860,627,756
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 218,539,057**	$ 218,027,803
Savings and interest-bearing demand	**498,578,649**	509,167,452
Time, $250,000 and over	**3,031,424**	4,473,640
Other time	**50,570,188**	44,721,773
	770,719,318	776,390,668
Subordinated debentures	**8,192,000**	11,907,000
Interest payable	**311,436**	242,705
Operating leases right-to-use liabilites	**634,246**	623,663
Other liabilities	**6,905,147**	7,362,602
Total liabilities	**786,762,147**	796,526,638
Stockholders' equity:		
Common stock, $2.50 par value, 2,975,592 shares authorized 1,241,948 outstanding December 31, 2024 and 1,227,030 outstanding December 31, 2023	**3,214,832**	3,164,130
Additional paid-in capital	**6,802,038**	5,515,830
Retained earnings	**76,957,224**	62,017,162
Treasury stock at cost, 33,259 and 38,622 shares outstanding	**(1,480,607)**	(1,073,512)
Accumulated other comprehensive income (loss)	**(4,651,714)**	(5,522,492)
Total stockholders' equity	**80,841,773**	64,101,118
Total liabilities and stockholders' equity	**$ 867,603,920**	$ 860,627,756

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

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2024	**2023**
Interest income:		
Interest and fees on loans:		
Taxable	**$ 43,305,873**	$ 34,847,460
Nontaxable	**366,114**	469,390
Interest on investment securities:		
Taxable	**9,009,644**	8,240,093
Nontaxable	**98,589**	72,023
Interest on deposits at other institutions	**1,111,335**	2,642,707
	53,891,555	46,271,673
Interest expense	**4,879,700**	3,052,664
Net interest income	**49,011,855**	43,219,009
Provision for credit losses	**700,000**	-
Net interest income after provision for credit losses	**48,311,855**	43,219,009
Noninterest income:		
Service charges	**3,041,905**	3,963,785
Mortgage banking income	**268,292**	315,537
Other	**559,261**	457,863
	3,869,458	4,737,185
Noninterest expense:		
Salaries and employee benefits	**19,643,536**	19,372,336
Equipment expense	**1,160,056**	951,153
Occupancy expense	**1,310,130**	1,220,080
Operating leases expense	**435,736**	423,880
Card processing and related expenses	**1,132,059**	1,056,191
Information Technology expenses	**2,634,837**	2,375,269
Professional Services and legal expenses	**588,956**	596,156
Advertising and public relations	**467,999**	435,771
Other	**3,022,076**	2,793,126
	30,395,385	29,223,962
Income before income taxes	**21,785,928**	18,732,232
Provision for income taxes	**5,297,000**	4,524,000
Net income	**$ 16,488,928**	$ 14,208,232
Basic earnings per share	**$ 13.40**	$ 11.75
Diluted earnings per share	**$ 13.24**	$ 11.36

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	
	2024	**2023**
Net Income	**$ 16,488,928**	$ 14,208,232
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities	**1,195,821**	462,765
Tax Effect	**(324,809)**	(125,696)
Other comprehensive income (loss)	**870,778**	337,303
Comprehensive Income	**$ 17,359,706**	$ 14,545,535

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, 2023	$ 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				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
Net income			**16,488,928**			**16,488,928**
Other comprehensive income				**870,778**		**870,778**
Purchase of 5,363 shares of treasury stock					**(407,095)**	**(407,095)**
Conversion and Sale of 20,281 shares of common stock	**50,702**	**1,286,208**				**1,336,910**
Cash dividends ($1.25 per share)			**(1,548,866)**			**(1,548,866)**
Balance, December 31, 2024	**$ 3,214,832**	**$ 6,802,038**	**$ 76,957,224**	**$ (4,651,714)**	**$ (1,480,607)**	**$ 80,841,773**

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	
	2024	**2023**
Cash flows from operating activities:		
Net income	**$ 16,488,928**	$ 14,208,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**1,006,213**	975,801
Net gains or losses on asset dispositions	**19,322**	50,196
Accretion of investment discounts, net	**(688,753)**	(609,119)
Amortization of core deposit intangible	**189,519**	189,519
Provision for credit losses	**700,000**	-
Increase in cash value of life insurance	**(349,198)**	(308,698)
Deferred income taxes	**(321,000)**	(611,000)
Change in:		
Interest receivable and other assets	**(1,503,326)**	(1,956,778)
Deferred loan fees and purchase discounts	**(899,671)**	(395,741)
Accrued interest and other liabilities	**(388,957)**	2,356,577
Net cash provided by operating activities	**14,253,077**	13,898,989
Cash flows from investing activities:		
Changes in interest bearing deposits at other banks	**980,000**	-
Proceeds from maturities of investment securities	**49,291,193**	50,254,604
Purchase of investment securities	**(26,160,131)**	(91,451,480)
Purchase of FHLB stock	**22,700**	433,100
Loans purchased	**-**	(14,424,199)
Loans originated, net of principal collected	**(57,965,342)**	(18,238,619)
Purchases of property	**(1,966,735)**	(1,356,160)
Net cash provided used for investing activities	**(35,798,315)**	(74,782,754)
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(5,671,350)**	(42,640,010)
Increase (Decrease) in subordinated debt	**(3,715,000)**	(3,050,000)
Issuance of common stock	**1,336,910**	981,091
Repurchase of common stock	**(407,095)**	-
Dividends paid	**(1,548,866)**	(1,411,084)
Net cash used for financing activities	**(10,005,401)**	(46,120,003)
Net increase (decrease) in cash and cash equivalents	**(31,550,639)**	(107,003,768)
Cash and cash equivalents, beginning of year	**64,384,293**	171,388,061
Cash and cash equivalents, end of year	**$ 32,833,654**	$ 64,384,293

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	
	2024	**2023**
Supplemental information:		
Cash paid during the year for:		
Income taxes	**$ 6,401,978**	$ 4,039,468
Interest	**4,810,969**	2,990,074

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 10). In accordance with the requirements of ASC 810 the accounts and transactions of these trusts are not consolidated in the accompanying consolidated financial statements.

Description of Business – The Bank provides commercial and consumer financing, banking and mortgage lending and other services in Northeastern Oregon 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:

	2024	2023
Time Certificates of deposit	**$ 1,225,000**	$ 2,205,000

1. Summary of Significant Accounting Policies, Continued:

A summary by maturity of time certificates of deposits at December 31, 2024 and 2023, is as follows:

	2024	2023
Due in one year or less	**$ 1,225,000**	$ 980,000
Due after one year through five years	**-**	1,225,000
	$ 1,225,000	$ 2,205,000

Debt 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.

Changes in the allowance for credit losses are recorded as provision for or (reversal) of credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale debt security is confirmed or when the criteria regarding intent or requirement to sell is met.

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

Accrued interest receivable on available-for-sale debt securities totaling $1,121,209 and $1,335,321 at December 31, 2024 and 2023, respectively, is included in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

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.

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

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.

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.

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. The ACL for unfunded commitments was $25,000 for December 31, 2024 and 2023, respectively.

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, 2024 and 2023, the minimum required investment was $553,000 and $575,700, 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.

1. Summary of Significant Accounting Policies, Continued:

Foreclosed Assets – Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure based on current appraisals, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

Advertising – Advertising costs are generally charged to expense during the year in which they are incurred.

Income Taxes – 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 credit 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, 2024 and 2023. 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).

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

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.

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.

Operating Segments – While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Discrete operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

The Company's reportable segments are determined by the Chief Executive Officer, who is the designated chief operating decision maker (CODM), based upon information provided about the Company's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the CODM, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. The CODM will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment and in the determination of allocating resources.

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

The CODM uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The CODM uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance and in establishing compensation. Loans and investments provide the revenues in the banking operation. Interest expense, provisions for credit losses and payroll provide the significant expenses in the banking operation. All operations are domestic. Segment performance is evaluated using consolidated net income. Information reported internally for performance assessment by the CODM is included within the statements of income.

Recent Accounting Guidance – Effective January 1, 2024, the Company adopted Accounting Standards Update ("ASU") 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The ASU requires that public entities (including those with a single reportable segment) make all existing segment disclosures required by Topic 280 Segment Reporting on both an annual and interim basis. Significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss (measure) and other segment items must also be disclosed. The CODM's title and position is also required to be disclosed as well as how the CODM uses each reported measure to assess segment performance and in deciding how to allocate resources. The ASU does not change how a public entity determines its reportable segments.

The amendments related to the ASU were applied retrospectively to the segment information disclosed for all prior periods presented in the accompanying financial statements. Adoption of the amendments of the ASU did not impact any of the amounts presented in the basic financial statements.

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.

1. Summary of Significant Accounting Policies, Continued:

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.

Subsequent Events – The Company has evaluated subsequent events through February 24, 2025, 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, 2024 is as follows:

2024

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	$ 83,701,138	$ 30,018	$ (2,908,636)	$ 80,822,520
Government guaranteed loan pools	14,430,426	25,001	(162,269)	14,293,158
Mortgage-backed securities	117,088,117	234,856	(3,604,395)	113,718,578
Obligations of municipal entities	2,915,776	18,943	(19,902)	2,914,817
	$ 218,135,457	$ 308,818	$ (6,695,202)	$ 211,749,073

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 1,974,818	$ -	$ -	$ 1,974,818
Obligations of municipal entities	1,007,483	-	-	1,007,483
	$ 2,982,301	$ -	$ -	$ 2,982,301

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

3. Investment Securities, Continued:

The following tables shows the gross unrealized losses and fair value of the Company's available-for-sale securities with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. Securities at December 31, 2024 are as follows.

	Securities in Unrealized Loss Positions as of December 31, 2024					
	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	**$ 5,376,690**	**$ (56,973)**	**$ 71,502,790**	**$ (2,851,663)**	**$ 76,879,480**	**$ (2,908,636)**
Government guaranteed loan pools	**11,227,958**	**(134,510)**	**753,118**	**(27,759)**	**11,981,076**	**(162,269)**
Mortgage-backed securities	**57,954,667**	**(1,099,537)**	**33,486,376**	**(2,504,858)**	**91,441,043**	**(3,604,395)**
Obligations of municipal entities	**200,034**	**(1,809)**	**689,278**	**(18,093)**	**889,312**	**(19,902)**
Total	**$ 74,759,349**	**$ (1,292,829)**	**$ 106,431,562**	**$ (5,402,373)**	**$ 181,190,911**	**$ (6,695,202)**

Securities at December 31, 2023 are as follows:

	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	$ 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, 2024. 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, 2024 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	$ 31,871,281	$ 31,683,839	$ -	$ -
Due after one year through five years	56,227,121	54,500,238	710,000	710,000
Due after five years	12,948,938	11,846,418	297,483	297,483
Mortgage-backed securities	117,088,117	113,718,578	1,974,818	1,974,818
	$ 218,135,457	$ 211,749,073	$ 2,982,301	$ 2,982,301

At December 31, 2024 and December 31, 2023 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, 2024 and 2023.

4. Loans and Allowance for Credit Losses:

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

	2024	2023
Farmland Loans	**$ 162,163,072**	$ 147,813,719
Commercial real estate loans	**104,730,500**	91,047,436
Agriculture loans	**178,436,626**	171,805,896
Commercial construction loans	**6,515,331**	6,579,819
Commercial loans	**86,466,827**	64,884,374
Real estate loans	**30,051,728**	29,570,603
Real estate construction loans	**15,637,214**	14,723,471
Consumer loans	**4,291,192**	3,818,245
	588,292,490	530,243,563
Deferred loan origination fees	**(927,808)**	(940,139)
Purchased loans discount	**(521,229)**	(1,408,569)
	586,843,453	527,894,855
Allowance for credit losses	**(6,811,655)**	(6,028,070)
	$ 580,031,798	$ 521,866,785

The loan portfolio at December 31, 2024 and 2023 includes $401,638,162 and $378,376,269 of loans which have a variable rate of interest. The December 31, 2024 and 2023 amount includes $125,823,983 and $144,057,524 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheet. There were $1,508,441 and $1,536,243 in loans being serviced for others at December 31, 2024 and 2023, respectively.

The following table presents loans purchased during the years ended December 31, 2024 and 2023:

	Purchased Loans	
	2024	2023
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 Acquistion	-	(500,000)
Noncredit Discount at Acquisition	-	(1,818,760)
Purchase Price at Acquisition	-	14,424,199

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

4. Loans and Allowance for Credit Losses, Continued:

The total loans outstanding on December 31, 2024 and 2023 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		Total Non Accrual		Nonaccrual with No Allowance for Credit Loss	
	12/31/2024	**12/31/2023**	**12/31/2024**	**12/31/2023**	**12/31/2024**	**12/31/2023**
Agriculture	**$ -**	$ 164,677	**$ 219,213**	$ 1,033,387	**$ 219,213**	$ 730,125
Commercial real estate	**-**	283,875	**1,361,747**	1,500,478	**1,361,747**	1,500,478
Commercial	**12,442**	516,013	**139,326**	84,200	**139,326**	84,200
Farmland	**-**	1,333,745	**-**	490,080	**-**	490,080
Real Estate	**-**	71,660	**384,326**	153,726	**368,755**	153,726
	$ 12,442	$ 2,369,970	**$ 2,104,612**	$ 3,261,871	**$2,089,041**	$ 2,958,609

There were no loans past due 90 days or more and still accruing interest at December 31, 2024 and 2023.

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

2024	**Collateral Dependent Loans by Collateral Type**			
	Real Estate	**Chattels**	**Chattels and 2nd lien RE**	**Total**
Farmland	**$ 3,586,014**	**$ -**	**$ -**	**$ 3,586,014**
Commercial real estate	**1,361,747**	**-**	**-**	**1,361,747**
Agriculture	**-**	**219,213**	**3,766,172**	**3,985,385**
Commercial	**139,326**	**-**	**-**	**139,326**
Consumer	**-**	**15,571**	**-**	**15,571**
Real estate	**368,755**	**-**	**-**	**368,755**
	$ 5,455,842	**$ 234,784**	**$ 3,766,172**	**$ 9,456,798**

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

4. Loans and Allowance for Credit Losses, Continued:

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.

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, 2024 and 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, 2024:

2024	Allowance for Credit Losses				
	Beginning Balance	Net (Charge-off) Recovery	Credit Loss Expense	Purchased Credit Losses	Ending Balance
Farmland	$ 1,148,406	$ -	$ 84,000	$ -	$ 1,232,406
Commercial real estate	950,911	-	98,000	-	$ 1,048,911
Agriculture	2,044,227	162,575	100,000	-	$ 2,306,802
Commercial construction	211,320	-	-	-	$ 211,320
Commercial	886,119	(72,888)	338,000	-	$ 1,151,231
Real estate	324,942	-	-	-	$ 324,942
Real estate construction	369,144	-	42,000	-	$ 411,144
Consumer	93,001	(6,102)	38,000	-	$ 124,899
Total	$ 6,028,070	$ 83,585	$ 700,000	$ -	$ 6,811,655

4. Loans and Allowance for Credit Losses, Continued:

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	$ 1,013,406	$ -	$ -	$ -	$ 135,000	$ 1,148,406
Commercial real estate	920,859	-	30,052	-	-	$ 950,911
Agriculture	1,694,227	-	25,000	-	325,000	$ 2,044,227
Commercial construction	211,320	-	-	-	-	$ 211,320
Commercial	838,688	-	47,431	-	-	$ 886,119
Real estate	324,942	-	-	-	-	$ 324,942
Real estate construction	369,144	-	-	-	-	$ 369,144
Consumer	61,504	-	(8,503)	-	40,000	$ 93,001
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, 2024 and $25,000 at December 31, 2023.

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.

BEO Bancorp and Subsidiary

Notes to Consolidated Financial Statements, Continued

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, 2024 is as follows:

	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior	Revoloving Loans Amortized Cost Basis	Total
Farmland Loans							
Pass	$ 21,700,123	$ 15,401,830	$ 22,901,281	$ 26,782,756	$ 54,778,479	$ 13,181,071	$ 154,745,540
Watch	3,300,000	380,000	143,336	-	1,285,351	-	5,108,687
Substandard	-	2,308,845	-	-	-	-	2,308,845
Doubtful	-	-	-	-	-	-	-
Total	$ 25,000,123	$ 18,090,675	$ 23,044,617	$ 26,782,756	$ 56,063,830	$ 13,181,071	$ 162,163,072
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate loans							
Pass	$ 17,841,229	$ 5,970,727	$ 11,953,818	$ 17,133,041	$ 39,653,910	$ 10,404,548	102,957,273
Watch		411,480	-	-	-	-	411,480
Substandard		-	-	-	1,361,747	-	1,361,747
Doubtful		-	-	-	-	-	-
Total	$ 17,841,229	$ 6,382,207	$ 11,953,818	$ 17,133,041	$ 41,015,657	$ 10,404,548	$ 104,730,500
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agriculture loans							
Pass	$ 10,890,197	$ 12,737,260	$ 9,430,633	$ 8,693,723	$ 4,778,884	$ 121,437,702	167,968,399
Watch		-	-	-	-	6,482,841	6,482,841
Substandard	-	-	-	-	-	3,985,386	3,985,386
Doubtful	-	-	-	-	-	-	-
Total	$ 10,890,197	$ 12,737,260	$ 9,430,633	$ 8,693,723	$ 4,778,884	$ 131,905,929	$ 178,436,626
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial construction loans							
Pass	$ -	$ -	$ 381,689	$ 5,675,360	$ 238,028	$ 220,254	6,515,331
Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	$ -	$ -	$ 381,689	$ 5,675,360	$ 238,028	$ 220,254	$ 6,515,331
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial loans							
Pass	$ 24,189,106	$ 13,782,106	$ 6,628,549	$ 6,029,260	$ 7,722,780	$ 27,901,444	86,253,245
Watch	-	40,233	8,102	-	-	120,664	168,999
Substandard	-	-	-	-	44,583	-	44,583
Doubtful	-	-	-	-	-	-	-
Total	$ 24,189,106	$ 13,822,339	$ 6,636,651	$ 6,029,260	$ 7,767,363	$ 28,022,108	$ 86,466,827
Current period gross charge offs	$ -	$ 18,970	$ -	$ 103,919	$ -	$ -	$ 122,889
Real estate loans							
Pass	$ 7,111,548	$ 4,679,337	$ 5,683,242	$ 3,231,698	$ 8,837,822	$ -	29,543,647
Watch	-	-	-	-	-	-	-
Substandard	-	313,444	-	-	194,637	-	508,081
Doubtful	-	-	-	-	-	-	-
Total	$ 7,111,548	$ 4,992,781	$ 5,683,242	$ 3,231,698	$ 9,032,459	$ -	$ 30,051,728
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements, Continued

4. Loans and Allowance for Credit Losses, Continued:

	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior	Revoloving Loans Amortized Cost Basis	Total
Real estate construction loans							
Pass	$ 5,644,295	$ 3,050,331	$ 1,563,166	$ 198,936	$ 2,594,396	$ -	$ 13,051,124
Watch	-	-	505,168	2,080,922	-	-	2,586,090
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	$ 5,644,295	$ 3,050,331	$ 2,068,334	$ 2,279,858	$ 2,594,396	$ -	$ 15,637,214
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer loans							
Pass	$ 432,681	$ 192,318	$ 136,769	$ 327,618	$ 349,763	$ 2,836,472	$ 4,275,621
Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	15,571	15,571
Doubtful	-	-	-	-	-	-	-
Total	$ 432,681	$ 192,318	$ 136,769	$ 327,618	$ 349,763	$ 2,852,043	$ 4,291,192
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ 6,101	$ 6,101

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 years ended December 31, 2024 and 2023, no revolving notes converted to term notes.

5. Property and Equipment:

Property and Equipment at December 31 consists of the following:

	2024	**2023**
Land	**$ 865,464**	$ 865,464
Buildings and improvements	**12,925,528**	11,289,098
Furniture and equipment	**4,741,733**	5,353,311
	18,532,725	17,507,873
Accumulated depreciation	**(8,781,245)**	(8,697,593)
	$ 9,751,480	$ 8,810,280

Depreciation expense of $1,006,213 and $975,801 was recognized in the years ending December 31, 2024 and 2023, respectively.

6. Core Deposit Intangible:

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

	2024	2023
Beginning Purchased Cost	**$ 1,895,190**	$ 1,895,190
Accumulated amortization	**(1,250,382)**	(871,343)
	$ 644,808	$ 1,023,847

Forecasted amortization is as follows:

2025	**159,141**
2026	**157,515**
2027	**157,515**
2028	**157,515**
2029	**13,122**
Thereafter	**-**
	$ 644,808

7. Other Assets:

Other assets consist of the following as of December 31:

	2024	2023
Prepaid expenses	**$ 647,105**	$ 688,330
Investment in unconsolidated subsidiaries (Trusts) (Note 10)	**217,000**	217,000
Other equity securities	**190,425**	190,425
Other items, net	**203,855**	200,591
	$ 1,258,385	$ 1,296,346

8. Deposits:

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

	2024	2023
Less than one year	**$ 42,726,196**	$ 38,161,253
One to three years	**10,281,911**	10,649,534
Over three years	**593,505**	384,626
	$ 53,601,612	$ 49,195,413

9. Borrowings:

At December 31, 2024, the Bank had unused credit available totaling approximately $555,000 from the Federal Home Loan Bank of Des Moines (FHLB), $33,000,000 of federal funds lines with correspondent banks and $935,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2024. The Bank has an outstanding letter of credit for $36,500,000 with FHLB as collateral for specific municipal deposits having balances in excess of FDIC insurance limits.

At December 31, 2023, the Bank had 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. At December 31, 2023 the Bank had 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.

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, 2024, 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, 2024 and 2023 are reflected as subordinated debentures in the consolidated balance sheet. The common stock issued by the Trusts is recorded in other assets (Note 7).

In 2019 and 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 2024, $275,000 was converted into 5,103 shares of newly issued stock, and during 2023, $950,000 was converted into 3,158 shares of newly issued common stock and 18,339 shares of treasury stock.

In 2020 through 2021 a private offering of 4% Subordinated Notes ("C Notes") were issued with local investors. These Notes were fully retired in 2024.

A summary of the terms of all outstanding subordinated debentures at December 31, 2024 and 2023 are as follows:

2024

	BEO Trust I	BEO Trust II	Convertible B Notes
Outstanding	$4,124,000	$3,093,000	$975,000
Issued	December 17, 2003	March 17, 2005	2020
Maturity	December 17, 2033	March 17, 2035	2025
Interest rate	SOFR+2.85%	SOFR+1.90%	4.0%
	(7.34% at 12/31/2024)	(6.39% at 12/31/2024)	

2023

	BEO Trust I	BEO Trust II	Convertible 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)		

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 $1,699,412 and $1,467,901in 2024 and 2023. During 2024, the plan purchased 18,070 shares of BEO Bancorp stock at a cumulative purchase price of $1,224,709. At December 31, 2024, the plan held 161,874 Bancorp shares, all of which were allocated to participants. During 2023, the plan purchased 13,463 shares of BEO Bancorp stock at a cumulative purchase price of $609,953.

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, 2024, are $25,869,218. At December 31, 2024, the Bank recorded a salary continuation benefit obligation included in other liabilities of $2,073,045. During 2024, $115,654 was paid in benefits and the amount of expenses charged was $257,057. Aggregate death benefits under the plan at December 31, 2023, were $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.

13. Income Taxes:

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

	2024	2023
Current tax expense:		
Federal	**$ 4,293,000**	$ 3,807,000
State	**1,325,000**	1,328,000
	5,618,000	5,135,000
Deferred tax expense (benefit):		
Federal	**(236,000)**	(450,000)
State	**(85,000)**	(161,000)
	(321,000)	(611,000)
	$ 5,297,000	$ 4,524,000

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:

	2024	2023
Tax on income at federal statutory rate (21%)	**$ 4,575,043**	$ 3,933,768
State income tax, net of federal benefit	**1,047,027**	1,048,880
Nontaxable interest income, net of allocable interest expense	**(113,469)**	(121,549)
Other, net	**(211,601)**	(337,099)
	$ 5,297,000	$ 4,524,000

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:

	2024	2023
Deferred compensation not deducted for tax purposes	**$ (40,365)**	$ (25,382)
Loan origination costs	**11,005**	44,076
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	**(373,118)**	(173,498)
Depreciation and amortization	**92,736**	(21,506)
Reserve for health insurance costs	**49,849**	(347,304)
Other, net	**(61,107)**	(87,386)
	$ (321,000)	$ (611,000)

13. Income Taxes, Continued:

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

	2024	2023
Assets:		
Allowance for credit losses	**$ 1,944,432**	$ 1,511,523
Deferred compensation	**694,066**	624,280
Purchased NOL carryforward	**210,487**	267,893
Reserve for health insurance costs	**297,493**	347,304
Unrealized loss on investment securities available-for-sale	**1,734,670**	2,059,479
Total deferred tax assets	**4,881,148**	4,810,479
Liabilities:		
Loan origination costs	**166,080**	155,059
Excess tax over book depreciation, amortization and impairment charges	**496,833**	394,817
Prepaid expenses	**52,565**	91,124
Total deferred tax liabilities	**715,478**	641,000
Net deferred tax assets	**$ 4,165,670**	$ 4,169,479

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, 2024 and 2023 and had no accrued interest and penalties on the consolidated balance sheet as of December 31, 2024 and 2023.

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:

	2024	2023
Commitments to extend credit	**$ 228,918,390**	$ 190,585,000
Standby letters of credit and financial guarantees written	**2,913,294**	3,771,123

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, 2024 and 2023 were as follows:

	2024	2023
Balance, January 1	**$ 598,934**	$ 871,336
Net additions or renewals	**813,884**	286,294
Amounts collected or renewed	**(374,107)**	(558,696)
Balance, December 31	**$ 1,038,711**	$ 598,934

In addition, there were $342,091 and $907,541, respectively, in commitments to extend credit to directors and officers at December 31, 2024 and 2023, which are included as part of commitments in Note 15.

Directors' and officers' deposits totaled $1,935,239 and $6,705,405 at December 31, 2024 and 2023, 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:

	2024		2023	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 32,833,654**	**$ 32,833,654**	$ 64,384,293	$ 64,384,293
Interest Bearing Deposits at banks	**1,225,000**	**1,225,000**	2,205,000	$ 2,205,000
Investment securities	**214,731,374**	**214,731,374**	235,977,862	$ 235,860,953
Loans, net of allowance for credit losses	**580,031,798**	**597,293,888**	521,866,785	513,527,490
Interest receivable	**9,516,896**	**9,516,896**	7,975,609	7,975,609
Federal Home Loan Bank stock	**553,000**	**553,000**	575,700	575,000
Financial liabilities:				
Deposits	**770,719,318**	**769,368,529**	776,390,668	773,845,573
Trust Preferred Securities	**7,217,000**	**6,694,877**	7,217,000	6,754,465
Other subordinated debentures	**975,000**	**975,000**	4,690,000	3,943,050
Accrued interest payable	**311,436**	**311,436**	242,705	242,705

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.

Collateral dependent loans – Certain collateral dependent 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 collateral dependent 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, 2024					
Recurring items, assets (liabilities):					
Investment securities available for sale	$ 211,749,073	$ -	$ 211,749,073	$ -	-
Total items measured at fair value on a recurring basis	$ 211,749,073	$ -	$ 211,749,073	$ -	
Non-recurring items:					
Loans valued at fair value	$ 15,571	$ -	$ -	$ 15,571	-
Total items measured at fair value on a non-recurring basis	$ 15,571	$ -	$ -	$ 15,571	

16. Fair Value Disclosures of Financial Instruments, Continued:

	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 assets measured at fair value on a non-recurring basis	$ 313,262	$ -	$ -	$ 313,262	

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 12/31/22	-	-	-
Net unrealized gains (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
Net unrealized losses	**-**	**-**	**-**
Net realized gains (losses)	**-**	**-**	**-**
Additions, collections and deletions, net	**(297,691)**	**-**	**(297,691)**
Transfers between Level III at fair value	**-**	**-**	**-**
Sales	**-**	**-**	**-**
Balance 12/31/24	**$ 15,571**	**$ -**	**$ 15,571**

The following table presents quantitative information about non-recurring Level 3 fair value measurements at December 31, 2024 and 2023.

	2024	Valuation Technique	Unobservable Input	Range
Loans valued at fair value	**$ 15,571**	Collateral Value	Cost to sale	5%-10%

	2023	Valuation Technique	Unobservable Input	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 2030 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 $393,931 for the year ended December 31, 2024 and $388,655 for the year ended December 31, 2023.

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

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	**393,931**	$ 388,655
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	**4.52**	2.67
Weighted-average discount rate		
Operating leases	**7.63%**	5.97%

17. Leases, Continued:

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2024.

	Operating
2025	**$ 301,112**
2026	**270,642**
2027	**152,540**
2028	**147,290**
2029	**128,091**
Thereafter	**82,216**
Total lease payments	**1,081,891**
Less interest	**447,645**
Present value of lease liabilities	**$ 634,246**

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 $2,407,598 and $2,254,349 of interchange income which is within the scope of ASC 606, and service charges on deposit accounts in the amount of $602,594 and $629,574, for the years ended December 31, 2024 and 2023, respectively. Mortgage banking income totals $268,292 and $315,537 and the remaining balances of $590,973 and $1,537,725 represent other miscellaneous income, for the years ended December 31, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, the Bank's CBLR ratio was 10.37% and 9.58%, 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.

	2024	2023
Numerator:		
Net earnings	**$ 16,488,928**	$ 14,208,232
Adjustment for interest expense on convertible notes, net of tax effect	**30,960**	61,344
Net earnings, adjusted	**$ 16,519,888**	$ 14,269,576
Denominator:		
Basic weighted average shares	**1,230,565**	1,209,217
Dilution for convertible notes	**16,862**	47,280
Diluted weighted average shares	**1,247,427**	1,256,497
Basic EPS	**$13.40**	$11.75
Diluted EPS	**$13.24**	$11.36

21. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEET

	December 31	
	2024	**2023**
Assets:		
Cash, deposited with the Bank	**$ 1,409,937**	$ 93,039
Investments in:		
Bank subsidiary	**87,440,328**	75,737,922
Nonbank subsidiaries (Trusts)	**217,000**	217,000
Other assets, net of amortization	**-**	15,600
	$ 89,067,265	$ 76,063,561
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	**$ 33,492**	$ 55,443
Subordinated debt	**8,192,000**	11,907,000
Total liabilities	**8,225,492**	11,962,443
Stockholders' equity:		
Common stock	**3,214,832**	3,164,130
Surplus	**6,802,038**	5,515,830
Retained earnings and accumulated other comprehensive income	**72,305,510**	56,494,670
Treasury stock at cost (31,675 shares)	**(1,480,607)**	(1,073,512)
Total stockholders' equity	**80,841,773**	64,101,118
Total liabilities and stockholders' equity	**$ 89,067,265**	$ 76,063,561

21. Parent Company Financial Information, Continued:

STATEMENT OF INCOME

	Year Ended December 31 2024	2023
Cash dividends from Bank	**$ 2,898,865**	$ 1,411,084
Less:		
Interest expense	**(710,357)**	(811,650)
Professional fees and administrative expenses	**(172,974)**	(150,526)
Income (loss) before equity in undistributed earnings of the Bank	**2,015,534**	448,908
Equity in undistributed earnings of Bank	**14,233,394**	13,559,324
Credit for income taxes	**240,000**	200,000
Net income	**$ 16,488,928**	$ 14,208,232

21. Parent Company Financial Information, Continued:

STATEMENT OF CASH FLOWS

	2024	2023
Operating activities:		
Net income	**$ 16,488,928**	$ 14,208,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	**(14,233,394)**	(13,559,324)
Change in other assets and liabilities	**(6,585)**	(38,222)
Net cash provided by operating activities	**2,248,949**	610,686
Investing activities:		
Investment in Subsidiaries	**3,402,000**	2,000,000
Financing activities:		
Issuance (Retirement) of subordinated debt	**(3,715,000)**	(3,050,000)
Issuance of Common Stock	**1,336,910**	981,091
Repurchase of common stock	**(407,095)**	-
Dividends paid	**(1,548,866)**	(1,411,084)
Net cash provided used for financing activities	**(4,334,051)**	(3,479,993)
Net increase (decrease) in cash	**1,316,898**	(869,307)
Cash, beginning of year	**93,039**	962,346
Cash, end of year	**$ 1,409,937**	$ 93,039