BEO BANCORP

75 Years

SINCE 1945

Growing Generations Together

Annual Report 2019

BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditor's Report

Year Ended December 31, 2019

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 of BEO Bancorp and Bank of Eastern Oregon for 2019.

2019 was another strong earnings year for your Bank. Along with strong earnings, we experienced significant growth, not only typical measurable metrics, but also in our footprint. During Q1 2019 we welcomed 4 new branches in eastern Washington (Colfax, Dayton, La Crosse, and Pomeroy). In Q4 2019 we opened branches in Hermiston, and La Grande, OR; which were expanded from loan production offices. Total assets ended the year at $492 million, up 18.8% from 2018. Loans grew 32.2% or $104 million to $429 million. Deposits also increased from 2018 by 19.7%, or $72 million to $441 million. Consolidated net income was 8.3% higher than our 2018 record, coming in at $4,278,476. This was the result of a continued strong net interest margin and the increases in loan and deposits from a year ago. Return on Average Assets (ROAA) for 2019 was 0.94% compared to 0.95% in 2018. Return on Average Equity came in at 11.84% compared to 11.91% in 2018. Net earnings per share were $3.62 in 2019 compared to $3.33 in 2018.

Our long history of dividend payout continued as we returned $1,057,409 or 5.09% higher than 2018. The 2019 dividend equated to $0.90 per share.

Stockholders' equity grew 9% in 2019 to $37.6 million.

As your bank continues to grow and your equity increases in value, it is important to note that our greatest asset is our employees. Without them, we would be just another financial institution. But we are different. The employees are owners of the bank, just like you, and have a vested interest in making sure our customers receive the service they deserve. As shareholders in BEO Bancorp, thank you for your continued investment, and trust in our banking team.

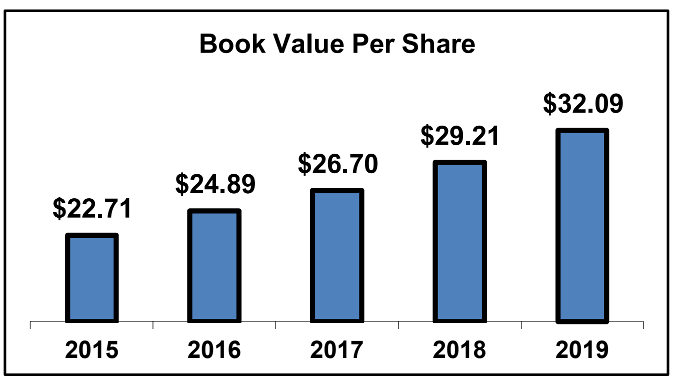
I cordially invite you to attend our annual meeting of stockholders. We will provide a recap of 2019, elect directors, and offer a glimpse at what we expect in 2020. In special celebration of our 75th anniversary in 2020, along with our typical shareholder meeting, we will host a lunch on Saturday, April 25, 2020. The event will start at 12:00 pm at the newly renovated **Gilliam & Bisbee building at 106 E. May St. in Heppner, OR**. I hope to see you there.

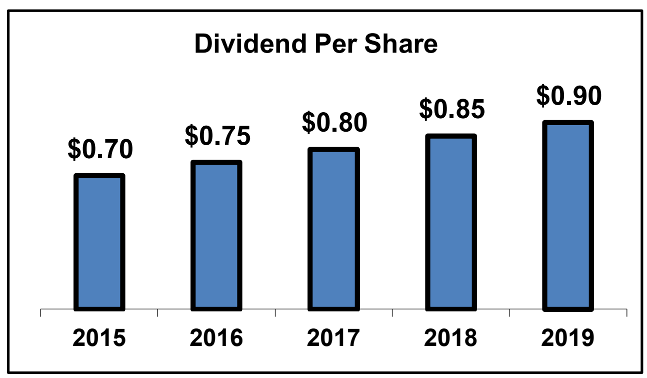
Sincerely,

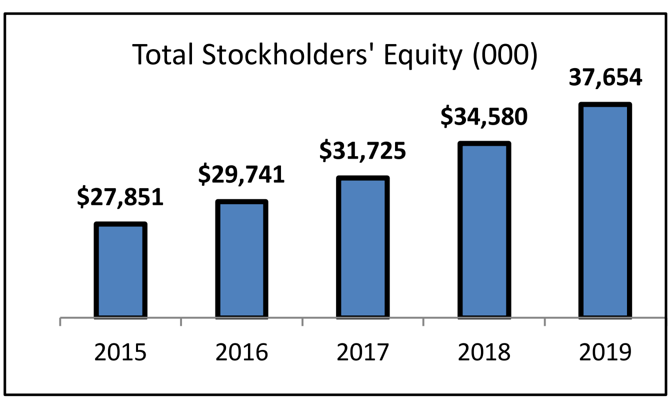
Jeff L. Bailey
President and CEO
BEO Bancorp

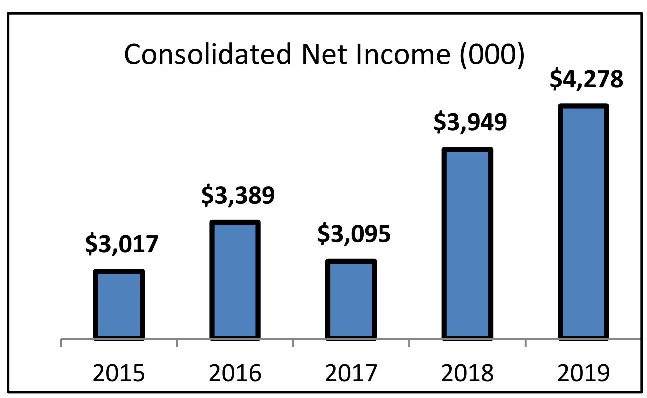
FINANCIAL HIGHLIGHTS
2015-2019

	2015	2016	2017	2018	2019
Net Income (000)	$3,017	$3,389	$3,095	$3,949	$4,278
Total Assets (000)	$357,258	$382,187	$414,532	$414,379	$492,260
Total Equity (000)	$27,851	$29,741	$31,725	$34,580	$37,654
Return on Average Assets	0.86%	0.92%	0.78%	0.95%	0.94%
Return on Average Equity	11.43%	11.77%	10.07%	11.91%	11.84%
Net Income Per Share	$2.46	$2.80	$2.60	$3.33	$3.62
Dividend Per Share	$0.70	$0.75	$0.80	$0.85	$0.90
Book Value Per Share	$22.71	$24.89	$26.70	$29.21	$32.09









Board of Directors:

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

Bank Officers:

Executive Team

Jeff Bailey, President & CEO
Mark Lemmon, EVP & CFO
Gary Propheter, EVP & COO

Senior Vice Presidents:

Becky Kindle, SVP Chief Banking Officer
John Qualls, SVP Chief Lending Officer
Ed Rollins, SVP Chief Credit Officer

Regional Vice Presidents:

John Bailey, Team Lead Loan Officer
Jed Myers, Team Lead Loan Officer
Mike Short, Team Lead Loan Officer
Lucas Wagner, Team Lead Loan Officer
Robert Williams, Team Lead Loan Officer

Vice Presidents:

James Bleth, IT Manager
Nial Bradshaw, Loan Officer
Christy Correa, Finance Coordinator
Janet Dezellem, Controller
Dawna Dougherty, Compliance Officer
James Gardner, Loan Officer
Tracy Hamby, Loan Officer
Jared Lathrop, Loan Officer
Pete McCabe, Loan Officer
Amy McNamee, Loan Officer
Kristy Nelson, Loan Officer
Craig Nightingale, Loan Officer
Anita Orem, Operations Support Mgr.
Robert Quinton, Loan Officer
Daniel Rehm, Loan Officer
Russell Seewald, Loan Officer
Rhonda Shaffer, Consumer Lending Mgr.
David Stirewalt, Loan Officer
Todd Wood, Loan Officer

Assistant Vice Presidents:

Arletta Arnspiger, Mortgage Loan Officer
Karen Cossitt, Team Lead, Branch Manager
Jolene Cox, Team Lead, Branch Manager
Laura Georges, Loan Officer
Jill Martin, Human Resource Manager
Janice Provencher, Team Lead, Branch Manager
Tricia Rollins, Loan Processing Manager
Lucy Sifuentez, Security Officer, Team Lead, Br. Mgr.

Lenders and Managers

Andrea Austinson, Branch Manager
Cindy Bailey, Internal Audit Manager
Jessica Barnett, Branch Manager
Stefanie Boller, Branch Manager
Shelly Hankins, Branch Manager
Susan Jones, Branch Manager
Shane Lazinka, Loan Officer
Sherrie Modey, Branch Manager
Lori Moss, Branch Manager
Debi Munck, Branch Manager
Kaitlin Orcutt, Mortgage Loan Officer
Rocio Orozco, Branch Manager
Sharon Rietmann, Branch Manager
Amber Schlaich, Loan Officer
Raymond Seastone, Mortgage Loan Officer
Fred Zack, Loan Officer

Independent Auditor's Report

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

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Bank of Eastern Oregon Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of income, profit and other comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, collectively the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

877 W. Main St., Ste. 800 | Boise, ID 83702-5858 | T 208.344.7150 | F 208.344.7435 | EOE

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of their operations and their cash flows of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Boise, Idaho
March 9, 2020

BEO Bancorp and Subsidiary
Consolidated Balance Sheet

		December 31 2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$	3,291,910
Interest bearing deposits at other financial institutions		10,966,241
Total cash and cash equivalents		14,258,151
Investment securities available-for-sale		19,172,734
Investment securities held-to-maturity		1,822,249
Loans, less allowance for loan losses		429,102,876
Interest receivable		4,424,917
Federal Home Loan Bank stock		497,500
Property, less accumulated depreciation		10,152,227
Deferred taxes, net		793,781
Foreclosed assets		953,090
Core deposit intangible, net of accumulated amortization		1,592,405
Cash surrender value of bank owned life insurance		7,701,205
Operating leases right-to-use assets		674,673
Other assets		1,114,290
		478,001,947
Total assets	$	492,260,098
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$	126,039,038
Savings and interest-bearing demand		270,289,603
Time, $250,000 and over		2,885,027
Time, less than $250,000		41,433,372
		440,647,040
Subordinated debentures		9,942,000
Interest payable		90,762
Operating leases right-to-use liabilites		674,673
Other liabilities		3,251,730
Total liabilities		454,606,205
Stockholders' equity:		
Common stock, $2.50 par value, 2,975,592 shares authorized 1,180,454 outstanding December 31, 2019 1,183,704 outstanding December 31, 2018		3,066,170
Additional paid-in capital		4,209,474
Retained earnings		31,750,787
Treasury stock at cost, 42,764 shares outstanding		(1,196,284)
Accumulated other comprehensive income (loss)		(176,254)
Total stockholders' equity		37,653,893
Total liabilities and stockholders' equity	$	492,260,098

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

BEO Bancorp and Subsidiary
Consolidated Statement of Income

	Year Ended December 31 2019
Interest income:	
Interest and fees on loans:	
Taxable	$ 22,480,239
Nontaxable	538,820
Interest on investment securities:	
Taxable	682,930
Nontaxable	88,084
Interest on deposits at other institutions	551,795
	24,341,868
Interest expense	1,803,499
Net interest income	22,538,369
Provision for loan losses	1,120,000
Net interest income after provision for loan losses	21,418,369
Noninterest income:	
Service charges	2,450,666
Mortgage banking income	315,094
Other	722,971
	3,488,731
Noninterest expense:	
Salaries and employee benefits	11,307,357
Equipment expense	1,902,529
Occupancy expense	966,464
Operating leases expense	245,584
Card processing and related expenses	1,148,645
Information Technology expenses	586,896
Professional Services and legal expenses	497,640
Advertising and public relations	443,256
Foreclosed asset expenses	57,205
Other	2,407,451
	19,563,027
Income before income taxes	5,344,073
Provision for income taxes	1,065,597
Net income	$ 4,278,476
Basic earnings per share	$ 3.62

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

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

		Year Ended December 31 2019
Net Income	$	4,278,476
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during period		359,996
Tax effect		(97,782)
Unrealized gain (loss) on cash flow hedge instrument		(429,490)
Tax effect		120,257
Other comprehensive income (loss)		(47,018)
Comprehensive Income	$	4,231,458

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOC Income (Loss)	Treasury Stock	Total
Balance, December 31, 2018	$ 3,066,170	$ 4,209,474	$ 28,529,720	$ (129,236)	$ (1,096,412)	$ 34,579,716
Net income			4,278,476			4,278,476
Other comprehensive income (loss):				(47,018)		(47,018)
Purchase of 3,250 shares of treasury stock					(99,872)	(99,872)
Cash dividends ($.90 per share)			(1,057,409)			(1,057,409)
Balance, December 31, 2019	$ 3,066,170	$ 4,209,474	$ 31,750,787	$ (176,254)	$ (1,196,284)	$ 37,653,893

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

BEO Bancorp and Subsidiary
Consolidated Statement of Cash Flows

	Year Ended December 31 2019
Cash flows from operating activities:	
Net income	$ 4,278,476
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	868,717
Net gains or losses on asset dispositions	28,967
Amortization of investment premiums, net	145,607
Amortization of core deposit intangible	176,393
Provision for loan losses	1,120,000
Proceeds from sale of loans, net	3,462,018
Write down of foreclosed assets	42,393
Increase in cash value of life insurance	(195,918)
Deferred income taxes	54,000
Change in:	
Interest receivable and other assets	763,775
Deferred loan fees	65,048
Accrued interest and other liabilities	112,565
Net cash provided by operating activities	10,922,041
Cash flows from investing activities:	
Acquisition of bank branches, net of cash acquired	44,645,780
Proceeds from maturities of investment securities	18,980,170
Purchase of investment securities	(6,010,019)
Proceeds from sale of foreclosed assets	762,555
Purchase of FHLB stock	(200)
Loans originated, net of principal collected	(106,063,259)
Purchases of property	(1,443,727)
Net cash used in investing activities	(49,128,700)
Cash flows from financing activities:	
Net increase in deposits	23,024,913
Premium on purchased deposits	(1,575,144)
Issuance of subordinated debt	1,175,000
Repurchase of common stock	(99,872)
Dividends paid	(1,057,409)
Net cash provided by financing activities	21,467,488
Net increase (decrease) in cash and cash equivalents	(16,739,171)
Cash and cash equivalents, beginning of year	30,997,322
Cash and cash equivalents, end of year	$ 14,258,151

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

BEO Bancorp and Subsidiary
Consolidated Statement of Cash Flows, Continued

		Year Ended December 31 2019
Supplemental disclosure of non-cash investing and financing activities		
Cash paid during the year for:		
Income taxes	$	1,345,000
Interest		1,800,641
Operating leases		245,584
Transfer of loans to foreclosed assets		66,885
Acquisition of bank branches		
Loans	$	2,990,269
Property and Fixed Assets		173,350
Core Deposit Intangible		1,575,144
Other Assets		6,155
Deposits		(49,390,698)

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

BEO Bancorp and Subsidiary
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Basis of Presentation – The consolidated financial statements include the accounts of BEO Bancorp ("Bancorp"), a bank holding company, and its wholly-owned subsidiary, Bank of Eastern Oregon (the "Bank" or "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. Bancorp has also established subsidiary grantor trusts in connection with the issuance of trust preferred securities (see Note 11). In accordance with the requirements of ASC 810 the accounts and transactions of these trusts are not consolidated in the accompanying consolidated financial statements.

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

Financial Statement Presentation – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates.

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

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

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

1. Summary of Significant Accounting Policies, Continued:

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

Securities purchased with the intent to sell in the near term are classified as trading securities and are reported at estimated fair market value with unrealized gains or losses reported in non-interest income. The Bank had no trading securities at December 31, 2019.

Securities not classified as held-to-maturity or as trading securities are classified as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Unrealized gains and losses are excluded from earnings and are credited or charged to other comprehensive income in stockholders' equity, net of applicable deferred taxes. Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized on the specific identification method.

The Bank recognizes other-than-temporary impairments for debt securities classified as available for sale in accordance with ASC 320. Accordingly, the Bank assesses whether it intends to sell, or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement but is recognized in other comprehensive income. The Bank has not recognized an other-than-temporary impairment of its debt securities as management believes all unrealized losses on investment securities at December 31, 2019 are temporary (see note 3).

1. Summary of Significant Accounting Policies, Continued:

Acquisition Activities – The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the fair value of net assets purchased exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Conversely, if the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. Fair values are subject to refinement after the closing date of an acquisition as information relative to closing date fair values available, but not beyond one year from the acquisition. The determination of the fair value of loans acquired takes into account credit quality deterioration and probability of loss at the acquisition date; therefore, the related allowance for loan losses is not carried forward. Deposit liabilities and the related depositor relationship intangible assets may be exchanged in observable exchange transactions. As a result, the depositor relationship intangible asset (the core deposit intangible) is considered identifiable, because the separability criterion has been met.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, net of deferred loan origination fees, premiums or discounts on purchased loans, and an allowance for loan losses.

Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of the interest is doubtful. Cash receipts on non-accrual loans are first recorded as principal collections. Loan origination fees, net of associated direct costs, if significant, are amortized by the interest method over the contractual life of the loan. Premiums and discounts on loans purchased are amortized using the straight-line method over a period management believes best matches the cash flow and risks associated with the loan.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectability of loans and prior loss experience. The evaluations take into consideration such factors as changes in the nature and value of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

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

1. Summary of Significant Accounting Policies, Continued:

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

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

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

1. Summary of Significant Accounting Policies, Continued:

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

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

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

Federal Home Loan Bank Stock – The investment in Federal Home Loan Bank ("FHLB") stock is a restricted investment carried at cost, which is based on the ultimate recoverability at par value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on borrowings. At December 31, 2019, the minimum required investment was $497,500. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold. Stock redemptions are at the discretion of the FHLB.

Property and Equipment – Property is stated at cost, net of accumulated depreciation. Additions, betterments and replacements of major units are capitalized. Expenditures for normal maintenance, repairs and replacements of minor units are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in operations currently. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Core Deposit Intangible – Core deposit intangible is stated at cost, net of accumulated amortization. Amortization is recorded on a straight-line basis with periodic evaluation for impairment.

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

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

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

1. Summary of Significant Accounting Policies, Continued:

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

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. The Company had no unrecognized tax benefits as of December 31, 2019. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Fair Value – Bancorp applies the hierarchy and framework for measuring fair value, disclosure about fair value measurements and the reliability of valuation inputs as provided in ASC 820. When determining the fair value, Bancorp considers the transaction to sell an asset or transfer a liability occurs in the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as company-developed future cash flow estimates and are considered the least reliable. Valuations for all of Bancorp's and the Bank's financial instruments fall within Levels 2 and 3 (see note 17).

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

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

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

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

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

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

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

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

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

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

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Adoption of Accounting Standards Codification Topic 842 – Effective January 1, 2019, the Company adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (Topic 842). The Company elected to apply the guidance as of January 1, 2019, the beginning of the adoption period. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Company has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Company accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2019, the beginning of the adoption period, a cumulative effect adjustment to retained earnings of $0 an operating lease liability of $674,673, and an operating right-of-use asset of $674,673. The adoption of the new standard did not materially impact the Company's Statement of Income or Statement of Cash Flows. See Note 18 for further disclosure of the Company's lease contracts.

1. Summary of Significant Accounting Policies, Continued:

Adoption of Accounting Standards Codification 815 – In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The primary objective of the amendments in this update is to simplify the application of hedge accounting. More specifically, the amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance or qualifying hedging relationships and the presentation of hedge results. Furthermore, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. Hedge ineffectiveness is no longer separately measured and reported.

Subsequent Events

The Company has evaluated subsequent events through March 9, 2020, the date the financial statements are available for distribution. Certain prior year amounts may have been reclassified to conform to the current year presentation. Such reclassifications have no effect on previously reported net income.

2. Cash and Due From Banks:

The Bank is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The required reserve balances at December 31, 2019 was approximately $0 and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

3. Investment Securities:

The amortized cost and estimated fair values of investment securities at December 31, 2019 is as follows:

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	$ 8,606,653	$ 302,749	$ (1,388)	$ 8,908,014
Government guaranteed loan pools	5,222,704	2,727	(68,777)	5,156,654
Mortgage-backed securities	4,077,458	25,325	(19,322)	4,083,461
Obligations of municipal entities	987,692	37,461	(548)	1,024,605
	$ 18,894,507	$ 368,262	$ (90,035)	$ 19,172,734

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of municipal entities	$ 1,822,249	$ -	$ -	$ 1,822,249
	$ 1,822,249	$ -	$ -	$ 1,822,249

Investment securities that were in unrealized loss positions as of December 31, 2019 are presented in the following tables, based on the length of time that individual securities were in unrealized loss positions.

	Available-for-Sale Securities in Unrealized Loss Positions as of December 31					
	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	$ 498,612	$ 1,388	$ -	$ -	$ 498,612	$ 1,388
Mortgage-backed securities	1,051,214	5,879	1,103,331	13,443	2,154,545	19,322
Government guaranteed loan pools	960,532	5,406	2,893,255	63,371	3,853,787	68,777
Obligations of municipal entities	103,386	548	-	-	103,386	548
Total	$ 2,613,744	$ 13,221	$ 3,996,586	$ 76,814	$ 6,610,330	$ 90,035

3. Investment Securities, Continued:

The unrealized losses on investment securities were caused by interest rate increases subsequent to the purchase of the securities and are considered temporarily impaired. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The amortized cost and estimated fair value of investment securities at December 31, 2019 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	$ 756,916	$ 770,134	$ -	$ -
Due after one year through five years	10,287,383	10,424,185	1,822,249	1,822,249
Due after five years	3,772,750	3,894,954	-	-
Mortgage-backed securities	4,077,458	4,083,461	-	-
	$ 18,894,507	$ 19,172,734	$ 1,822,249	$ 1,822,249

At December 31, 2019, investment securities with amortized costs of $2,715,659 and estimated fair values of $2,775,646 were pledged for public deposits.

There were no proceeds or sales of available-for-sale securities during the year ended December 31, 2019.

4. Loans:

Major classifications of loans by type of collateral at December 31, 2019 are as follows:

	2019
Farmland loans	$ 118,072,867
Commercial real estate loans	89,005,648
Agriculture loans	113,677,253
Commercial construction loans	8,504,613
Commercial loans	64,625,091
Real estate loans	24,550,067
Real estate construction loans	11,344,203
Consumer loans	4,370,333
	434,150,075
Deferred loan origination fees	(638,566)
Purchased loans discount	(110,298)
	433,401,211
Allowance for loan losses	(4,298,335)
	$ 429,102,876

The loan portfolio at December 31, 2019 includes $335,095,085 of loans which have a variable rate of interest. The December 31, 2019 amount includes $162,965,751 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheets. There were $1,700,000 in loans being serviced for others at December 31, 2019.

The total loans outstanding on December 31, 2019 which were on a nonaccrual basis, contractually past due 90 days or more as to interest or principal payments are as follows:

	30-89 Days Past Due	Loans Past Due 90 Days or More and Still Accruing	Recorded Investment Nonaccrual Loans	Unpaid Principal Nonaccrual Loans
Agriculture	$ -	$ 708,440	$ 2,589,209	$ 3,182,418
Commercial real estate	-	-	2,751,355	2,851,856
Commercial	-	-	2,785,321	2,785,321
Farmland	-	-	3,005,150	3,005,150
	$ -	$ 708,440	$ 11,131,035	$ 11,824,745

4. **Loans,** Continued:

The following is an analysis of impaired loans as of December 31, 2019:

	Impaired Loans				
	With a Related Allowance	Without a Related Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Allowance
Farmland	$ -	$ 3,005,150	$ 3,005,150	$ 3,210,033	$ -
Commercial real estate	-	2,751,355	2,751,355	2,851,856	-
Agriculture	346,466	2,242,743	2,589,209	3,182,418	197,561
Commercial	-	2,858,950	2,858,950	3,160,956	-
Real estate		163,863	163,863	166,438	-
	$ 346,466	$ 11,022,061	$ 11,368,527	$ 12,571,701	$ 197,561

The average recorded investment in impaired loans was approximately $12,590,547 in 2019. Interest income recognized on impaired loans totaled $176,134 in 2019. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was $801,939 in 2019.

There were no loans accounted for as Trouble Debt Restructurings (TDR) that occurred during the years ended December 31, 2019.

None of the loans accounted for as TDR from previous years were in default as of December 31, 2019. At December 31, 2019 the Bank had no unfunded commitments on TDR loans. Loans are accounted for as TDR when significant concessions have been granted that would not have otherwise been considered except for the borrower's financial difficulties. Concessions may include extended repayment terms such as interest only payments or lengthened maturities, or interest rate modifications and are granted to improve the likelihood that the borrower will be able to repay the obligation. TDR loans are included in impaired loans and the methodology for evaluating credit losses and accrual status is the same as for other impaired loans.

5. Allowance for Loan Losses:

The Bank maintains an allowance for loan losses ("ALLL") to absorb losses resulting from the inherent risks of lending. The balance of the ALLL is reviewed at least quarterly to assess the adequacy relative to probable estimated losses within the loan portfolio. The methodology is consistent with the Contingencies and Receivables topics of the FASB ASC and did not significantly change during 2019.

A detailed analysis of the ALLL by major portfolio segment as of December 31, 2019:

			Allowance for Loan Losses					
	Weighted Average Risk Rating	Recorded Investment in Loans	Beginning Balance	Net (Charge-off) Recovery	Provision	Ending Balance	Specific Reserve	General Allocation
Farmland loans	3.11	$ 118,072,867	$764,143	$ -	$94,000	$ 858,143	$ -	$ 858,143
Commercial real estate loans	2.62	89,005,648	630,944	3,314	25,000	659,257	-	659,257
Agriculture loans	2.99	113,677,253	1,111,020	(327,781)	760,000	1,543,239	197,561	1,345,678
Commercial construction loans	3.70	8,504,613	146,056	-	-	146,056	-	146,056
Commercial loans	2.69	64,625,091	454,935	(37,755)	150,000	567,180	-	567,180
Real estate loans	2.93	24,550,067	215,779	-	56,000	271,779	-	271,779
Real estate construction loans	2.69	11,344,203	205,810	-	5,000	210,810	-	210,810
Consumer loans	3.06	4,370,333	27,079	(15,208)	30,000	41,871	-	41,871
Total	3.03	$ 434,150,075	$ 3,555,766	$ (377,430)	$ 1,120,000	$ 4,298,335	$ 197,561	$ 4,100,774

	Loan Balances	
	Individually Impaired Loans	Collectively Evaluated Loans
Farmland loans	$ 3,005,150	$ 115,067,717
Commercial real estate loans	2,751,355	86,254,293
Agriculture loans	2,589,209	111,088,044
Commercial construction loans	-	8,504,613
Commercial loans	2,858,950	61,766,141
Real estate loans	163,863	24,386,204
Real estate construction loans	-	11,344,203
Consumer loans	-	4,370,333
Total	$ 11,368,527	$ 422,781,548

5. Allowance for Loan Losses, Continued:

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

These Loan risk ratings are assigned as follows:

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

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2019 was as follows:

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

	Pass	Watch	Substandard	Doubtful	Total
Commercial					
Commercial	$ 60,921,402	$ 457,897	$ 3,245,792	$ -	$ 64,625,091
Commercial construction	8,504,613	-	-	-	8,504,613
Commercial Real Estate					
Commercial real estate	83,804,502	1,679,777	3,521,369	-	89,005,648
Agriculture					
Farmland	110,862,239	4,191,548	3,019,080	-	118,072,867
Agriculture	105,961,632	3,994,442	3,721,179	-	113,677,253
	$ 370,054,388	$ 10,323,664	$ 13,507,420	$ -	$ 393,885,472

5. Allowance for Loan Losses, Continued:

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

Residential real estate and consumer loans are managed on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more or are not accruing interest are considered nonperforming. The following table presents the recorded investments in residential real estate and consumer loans by class based on payment activity as of December 31, 2019:

	Performing	Nonperforming
Residential Real Estate		
Real estate loans	$ 24,550,067	$ -
Real estate construction loans	11,344,203	-
Consumer		
Consumer loans	4,370,333	-
	$ 40,264,603	$ -

6. Property and Equipment:

Property and Equipment at December 31, 2019 consists of the following:

Land	$ 865,464
Buildings and improvements	10,886,707
Furniture and equipment	6,661,332
	18,413,503
Accumulated depreciation	(8,261,276)
	$ 10,152,227

Depreciation expense of $868,717 was recognized in the years ending December 31, 2019.

7. Core Deposit Intangible:

Core deposit intangible consists of the following as of December 31, 2019:

Beginning Purchased Cost	$	1,895,190
Accumulated amortization		(302,785)
	$	1,592,405

Core deposit intangible is being amortized on a straight-line basis with annual amortization expense expected to be $189,519 per year for 2020 through 2024 and $644,810 thereafter.

8. Other Assets:

Other assets consist of the following as of December 31, 2019:

Prepaid expenses	$	534,138
Investment in unconsolidated subsidiaries (Trusts) (Note 11)		217,000
Other equity securities		190,425
Other items, net		172,727
	$	1,114,290

9. Deposits:

The scheduled maturities of time deposits at December 31, 2019 are as follows:

Less than one year	$	33,548,268
One to three years		8,569,666
Over three years		2,200,465
	$	44,318,399

10. Borrowings:

At December 31, 2019, the Bank has unused credit available totaling approximately $41,000,000 from the Federal Home Loan Bank of Des Moines, $29,000,000 of federal funds lines with correspondent banks and $4,800,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2019.

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

11. Subordinated Debentures:

As of December 31, 2019, Bancorp had two wholly-owned trusts ("Trusts") that were formed to issue trust preferred securities and related common securities. The Trusts issued Capital Securities ("Trust Preferred Securities") and invested the proceeds in a like amount of Junior Subordinated Debentures ("Debentures") of BEO Bancorp. Interest distributions on the Trust Preferred Securities are payable quarterly and are deferrable, at Bancorp's option, for up to five years. The Debentures bear the same terms and interest rates as the related Trust Preferred Securities. The Debentures are the sole assets of the Trusts. Bancorp has unconditionally guaranteed all of the obligations of the Trusts.

The Trust Preferred Securities are mandatorily redeemable, in whole or in part, upon repayment of the underlying Debentures at their stated maturities or their earlier redemption. The Debentures are redeemable prior to maturity at Bancorp's option.

In accordance with provisions of ASC 810 the Trusts have not been consolidated in these financial statements. The $7,217,000 of Debentures issued to the Trusts as of December 31, 2019 is reflected as subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets (Note 8).

In February 2015 Bancorp issued 4%, 5-year Callable Subordinated Notes ("A Notes") in a private offering. In the third quarter of 2019 a new private offering began of up to $5,000,000 of 5-year, 4%, Callable/Convertible Subordinated Notes ("B Notes"). The B Notes are convertible after one year into common stock at 85% of the sixty-day weighted average price at the time of the election. None of the B Notes will be convertible until the third quarter of 2020. As of December 31, 2019, $1,200,000 of the remaining A Notes had been redeemed into B Notes. All of the A Notes subsequently have been or are expected to be redeemed into B Notes. The B Notes offering is open until March 31, 2020 unless extended by Bancorp.

11. Subordinated Debentures, Continued:

A summary of the terms of all outstanding subordinated debentures at December 31, 2019 is as follows:

	BEO Trust I	BEO Trust II	A Notes	B Notes
Outstanding	$4,124,000	$3,093,000	$350,000	$2,375,000
Issued	December 17, 2003	March 17, 2005	February 2015	2019 and 2020
Maturity	December 17, 2033	March 17, 2035	January 2020	2024 to 2025
Interest rate	LIBOR plus 2.85% (4.75% at 12/31/2019)	LIBOR plus 1.90% (3.80% at 12/31/2019)	4.0%	4.0%

12. Benefit Plans:

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

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

Employer contributions charged to expense were $579,874 in 2019. During 2019 the plan purchased 3,998 of BEO Bancorp stock from current shareholders at a cumulative purchase price of $124,842. At December 31, 2019 the plan held 119,412 Bancorp shares, all of which were allocated to participants.

13. Bank Owned Life Insurance and Deferred Compensation:

The Bank is beneficiary of bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. Aggregate death benefits under the plan at December 31, 2019, are $20,022,262. At December 31, 2019, the Bank recorded a salary continuation benefit obligation included in other liabilities of $1,600,633. During 2019 $72,471 was paid in benefits and the amount of expenses charged was $267,891.

14. Income Taxes:

The provision for income taxes for the year ended December 31, 2019 consists of the following:

Current tax expense:		
Federal	$	855,000
State		156,597
		1,011,597
Deferred tax expense (benefit):		
Federal		40,000
State		14,000
		54,000
	$	1,065,597

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, 2019 are as follows:

Tax on income at federal statutory rate (21%)	$	1,122,255
State income tax, net of federal benefit		212,680
Refunds from ammended returns		(112,403)
Nontaxable interest income, net of allocable interest expense		(129,013)
Other, net		(27,922)
	$	1,065,597

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, 2019 are as follows:

Deferred compensation not deducted for tax purposes	$	(55,532)
Loan origination costs		9,554
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes		(254,957)
Depreciation and amortization		350,898
Other, net		4,037
	$	54,000

14. Income Taxes, Continued:

The components of deferred tax assets and liabilities at December 31, 2019 are as follows:

Assets:		
Allowance for loan losses	$	1,019,299
Deferred compensation		420,341
Purchased NOL carryforward		306,163
Purchased Oregon BETC		6,864
Foreclosed assets basis difference		30,167
Unrealized loss on investment securities available-for-sale		-
Unrealized loss on cash flow hedge instrument		147,354
Total deferred tax assets		1,930,188
Liabilities:		
Unrealized gain on investment securities available-for-sale		75,572
Loan origination costs		102,530
Excess tax over book depreciation, amortization and impairment charges		833,973
Prepaid expenses		124,332
Federal Home Loan Bank stock dividends		-
Total deferred tax liabilities		1,136,407
Net deferred tax assets	$	793,781

The Company files income tax returns in the U.S federal jurisdiction and franchise tax returns in the state of Oregon. The Company recognized no interest and penalties on the underpayment of income taxes during the year ended December 31, 2019 and had no accrued interest and penalties on the balance sheet as of December 31, 2019.

15. Financial Instruments with Off-Balance-Sheet Risk:

In order to meet the financing needs of its customers, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Financial instruments with off-balance-sheet risk at December 31, 2019 are as follows:

Commitments to extend credit	$ 106,313,450
Standby letters of credit and financial guarantees written	3,328,071

16. Loans to Related Parties:

The Bank has granted loans to officers and directors. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. Activity with respect to these loans during the year ended December 31, 2019 was as follows:

Balance, January 1	$ 1,224,434
Net additions or renewals	704,137
Amounts collected or renewed	(959,764)
Balance, December 31	$ 968,807

In addition, there were $846,000 in commitments to extend credit to directors and officers at December 31, 2019, which are included as part of commitments in Note 15.

17. Fair Value Disclosures of Financial Instruments:

The following disclosures are made in accordance with provisions of ASC 825. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The estimated fair values of the financial instruments at December 31 are as follows:

	2019	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 14,258,151	$ 14,258,151
Investment securities	20,994,983	20,994,983
Loans, net of allowance for loan losses	429,102,876	443,350,327
Interest receivable	4,424,917	4,424,917
Federal Home Loan Bank stock	497,500	497,500
Financial liabilities:		
Deposits	440,647,040	440,687,425
Cash flow hedge	526,263	526,263
Trust Preferred Securities	7,217,000	7,698,228
Other subordinated debentures	2,725,000	2,725,000
Accrued interest payable	90,762	90,762

17. Fair Value Disclosures of Financial Instruments, Continued:

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

Investment securities – Fair value is based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices from similar securities.

Loans – Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Variable rate loans not at contractual floors have carrying amounts that are a reasonable estimate of fair value. Impaired loans' fair values are estimated primarily at collateral values and consider credit risk.

Deposits – Fair value of demand, interest-bearing demand and savings deposits is the amount payable on demand at the reporting date. Fair value of time deposits is estimated using the interest rates currently offered for the deposits of similar remaining maturities. The estimated fair values of deposits do not take into account the benefit that results from low-cost funding such deposits provide.

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

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

17. Fair Value Disclosures of Financial Instruments, Continued:

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

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total Period Losses Included in Earnings
December 31, 2019					
Recurring items, assets (liabilities):					
Cash flow hedge instrument	$ (526,263)	$ -	$ (526,263)	$ -	
Investment securities available-for-sale	19,172,734	-	19,172,734	-	
Total items measured at fair value on a recurring basis	$ 18,646,471	$ -	$ 18,646,471	$ -	
Non-recurring items:					
Impaired loans valued at fair value	$ 2,363,677	$ -	$ -	$ 2,363,677	
Foreclosed assets	953,090	-	-	953,090	$ 42,393
Total items measured at fair value on a non-recurring basis	$ 3,316,767	$ -	$ -	$ 3,316,767	

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

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

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

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

17. Fair Value Disclosures of Financial Instruments, Continued:

Foreclosed assets – Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

The fair value represents management's best estimates based on a range of methodologies and assumptions. For loans with doubt as to collectability that are collateral dependent and foreclosed assets, the valuation is based on appraised value of the collateral less costs to sale. For loans not deemed collateral dependent, expected cash flows are discounted using an appropriate rate considering the time of collection, credit risk, and the discount for the uncertainty of the flows.

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

	Impaired loans net of reserves	Foreclosed assets	Total
Balance December 31, 2018	$ 2,502,348	$ 1,844,453	$ 4,346,801
Net unrealized losses	-	(42,393)	(42,393)
Net realized gains (losses)	-	(153,300)	(153,300)
Additions, collections and deletions, net	(71,786)	-	(71,786)
Transfers between Level III at fair value	(66,885)	66,885	-
Sales	-	(762,555)	(762,555)
Balance December 31, 2019	$ 2,363,677	$ 953,090	$ 3,316,767

The following table presents quantitative information about non-recurring Level III fair value measurements at December 31, 2019.

	Value	Valuation Technique	Unobservable Input	Range
Impaired Loans valued at market	$ 2,363,677	Collateral Value	Cost to sale	5%-10%
Foreclosed Assets	953,090	Collateral Value	Cost to sale	5%-10%

18. Leases

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

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

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

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

Total lease expense under noncancelable leases was $245,584 for the year December 31, 2019.

The following table summarizes the supplemental cash flow information for the year ended December 31, 2019:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	245,584
Right-of-use assets obtained in exchange for lease liabilities		
Operating leases	$	674,673

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

Weighted-average remaining lease term	
Operating leases	4.3 Years
Weighted-average discount rate	
Operating leases	7.36%

18. Leases, Continued:

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 2019.

	Operating
2020	$ 204,701
2021	185,066
2022	150,581
2023	128,081
2024	122,081
Thereafter	46,714
Total lease payments	837,224
Less interest	162,551
Present value of lease liabilities	$ 674,673

19. Revenue from Contracts with Customers:

All the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Noninterest Income. Gains on sales of loans and gains from sales of securities are outside of the scope of ASC 606. Service charge income includes $1,553,342 of interchange income which is within the scope of ASC 606, and service charges on deposit accounts in the amount of $897,324. Mortgage banking income totals $315,094 and the remaining balance of $722,971 represents other miscellaneous income, which are outside the scope of ASC 606.

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

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

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

20. Regulatory Matters:

The federal banking agencies published final rules (the Basel III Capital Rules) that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Company and the Bank.

In connection with the effectiveness of Basel III, most banks are required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income (AOCI) in their Common Equity Tier 1 Capital. This is a one-time election and generally irrevocable. If electing to opt-out, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to Basel III. BEO Bancorporation, Inc. has elected to opt-out of the inclusion.

20. Regulatory Matters, Continued:

Among other things, the Basel III Capital Rules: (i) introduce a new capital measure entitled "Common Equity Tier 1" (CET1); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

The Company, on a consolidated basis, and the Bank are subject to various regulatory capital requirements administered by the federal and state 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 Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of CET1, Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital. As of January 1, 2015, the requirements are:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

As of December 31, 2019, management believes the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

20. Regulatory Matters, Continued:

The Bank's actual capital amounts (in thousands) and ratios are presented in the following tables.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2019:						
Common tier 1 to risk-weighted assets						
Bank of Eastern Oregon	**$ 45,512**	**9.40%**	**$ 21,796**	**4.5%**	**$ 31,483**	**6.5%**
Tier1 capital to risk-weighted assets						
Bank of Eastern Oregon	**45,512**	**9.40%**	**29,061**	**6.0%**	**38,748**	**8.0%**
Total capital to risk-weighted assets						
Bank of Eastern Oregon	**49,835**	**10.29%**	**38,748**	**8.0%**	**48,435**	**10.0%**
Tier 1 leverage ratio						
Bank of Eastern Oregon	**45,512**	**9.45%**	**19,259**	**4.0%**	**24,074**	**5.0%**

21. Business Combination:

On February 2, 2019, the Bank purchased all of the deposits and associated assets of 4 branches of Umpqua Bank for a purchase consideration of $5,035,585. The acquisition provides the Bank with additional deposits. The fair value of consideration paid equaled the estimated fair value of Umpqua Bank's equity acquired resulting in no gain or goodwill. Acquisition-related costs of $321,385 were expensed and are reported as other expenses in the consolidated statements of income.

21. **Business Combination**, Continued:

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Fair value of assets acquired	
Loans	$ 2,990,269
Property and Fixed Assets	173,350
Core Deposit Intangible	1,575,144
Other Assets	6,155
Total assets acquired	4,744,918
Fair value of liabilities assumed	
Deposits	49,390,698
Total liabilities assumed	49,390,698
Cash acquired in settlement of assets acquired and liabilities assumed	$ 44,645,780

The fair value of the identifiable assets acquired, and liabilities assumed of equaled the purchase price. Consequently, the Company reassessed the recognition and measurement of identifiable assets acquired, and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. As a result, the Bank had no gain associated with the acquisition.

22. Interest Rate Contracts:

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

The Company has outstanding interest rate swap agreements with notional amounts totaling $7,000,000 to convert the variable-rate trust preferred securities into fixed-rate instruments. The agreements have a weighted average maturity of 8.1 years and have fixed rates ranging from 4.925% to 5.3475% with a weighted average rate of 5.16%. The fair value of the derivatives was an unrealized loss of $526,263 at December 31, 2019.

No gain or loss was recognized in earnings for the year ended December 31, 2019 related to the interest rate swaps. No deferred net loss on interest rate swaps in other comprehensive income at December 31, 2019, are expected to be reclassified into net income during the next 12 months. See Statement of Other Comprehensive Income for amounts reported as other comprehensive loss.

The following table summarizes the derivative financial instruments utilized at December 31, 2019:

Cash Flow Hedges	Interest rate swap contract	Interest rate swap contract
Balance Sheet Location	Other liabilities	Other liabilities
Notional Amount	3,000,000	4,000,000
Fair Value Loss	(432,644)	(93,619)

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received at December 31, 2019:

	Interest rate swap contract	Interest rate swap contract
Notional Amount	3,000,000	4,000,000
Maturity Years	15.2	2.7
Fair Value Loss	(432,644)	(93,619)
Interest Rate Receive	LIBOR 3M BBA	LIBOR 3M BBA
Interest Rate Pay	4.93%	5.35%

23. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEET

		December 31, 2019
Assets:		
Cash, deposited with the Bank	$	169,781
Investments in:		
Bank subsidiary		47,612,993
Nonbank subsidiaries (Trusts)		217,000
Other assets, net of amortization		147,354
	$	48,147,128
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	$	24,972
Unrealized loss on cash flow hedge instrument		526,263
Subordinated debt		9,942,000
Total liabilities		10,493,235
Stockholders' equity:		
Common stock		3,066,170
Surplus		4,209,474
Retained earnings and accumulated other comprehensive income		31,574,533
Treasury stock at cost (31,675 shares)		(1,196,284)
Total stockholders' equity		37,653,893
Total liabilities and stockholders' equity	$	48,147,128

23. Parent Company Financial Information, Continued:

STATEMENT OF INCOME

	Year Ended December 31, 2019
Cash dividends from Bank	$ 1,482,409
Less:	
Interest expense	(441,093)
Professional fees and administrative expenses	(140,450)
Income before equity in undistributed earnings of the Bank	900,866
Equity in undistributed earnings of Bank	3,177,610
Credit for income taxes	200,000
Net income	$ 4,278,476

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2019
Operating activities:	
Net income	$ 4,278,476
Adjustments to reconcile net income to net cash provided by operating activities:	
Undistributed earnings of the Bank	(3,177,610)
Change in other assets and liabilities	9,472
Net cash provided by operating activities	1,110,338
Investing activities:	
Investment in Subsidiaries	(1,175,000)
Financing activities:	
Issuance (Retirement) of subordinated debt	1,175,000
Repurchase of common stock	(99,872)
Dividends paid	(1,057,409)
Net cash provided by financing activities	17,719
Net increase (decrease) in cash	(46,943)
Cash, beginning of year	216,724
Cash, end of year	$ 169,781