BEO Bancorp and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

The Federal Deposit Insurance Corporation has not reviewed the financial data and related data in this statement for accuracy or relevance.

ISLER CPA, LLC
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON

BEO Bancorp and Subsidiary

C O N T E N T S

Message to our stockholders

I am pleased to report to the stockholders of BEO Bancorp the results of 2008, a year of successes and challenges. We continued to deliver impressive earnings compared to our peers' results but also continued to reserve for potential weaknesses in our credit portfolio as a result of a general economic recession.

Total earnings for 2008 were the second highest in the 65 year history of the bank, exceeded only by the 2007 income. After-tax consolidated net income for 2008 was $2,046,579 compared to $2,324,781 in 2007, 11.97% less but very strong in the current economic environment. Return on average assets was .94% and return on average equity was 16.15%, both considerably better than our average peers. This was accomplished while $1,778,000 was added to the reserve for loan losses to provide for potential weakness in the loan portfolio that could result from the slowing economy.

The bank experienced strong and steady growth in 2008. Loans increased from $148,274,080 to $175,790,811, an increase of 18.56%. Deposits grew from $170,160,204 to $188,957,858, an increase of 11.04%. Total assets reached $227,994,431 at year end compared to $207,635,914 the previous year, increasing 9.80%

Capital grew from $11,680,206 to $13,656,732 during the year, an excellent increase. Capital ratios declined slightly due to a faster growth in the equation's denominator, average assets. At the bank level, Tier 1 leverage capital declined from 8.70% to 8.51%, remaining substantially in excess of the 5% regulatory minimum to be categorized as well capitalized.

I am grateful to a committed staff of employees who strive each day to provide quality, professional advice and care to our customer base. This level of dedication translates into the results we continue to deliver to the shareholders of BEO Bancorp.

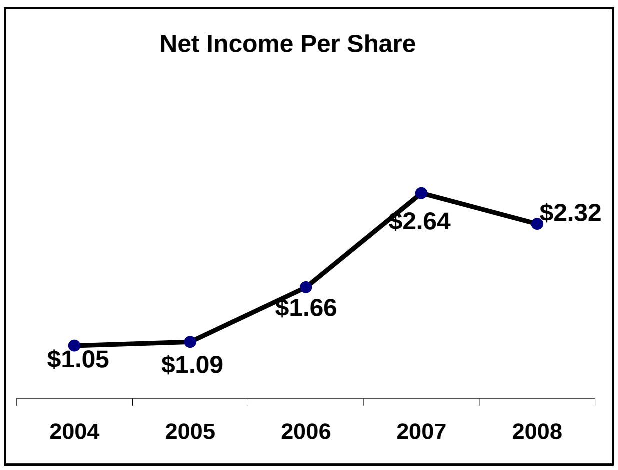
The annual meeting of BEO Bancorp will be held at 7pm in Boardman, Oregon on Wednesday, March 25th at the Port of Morrow offices. Please join us as we elect three directors and discuss the results of 2008 and the outlook for 2009.

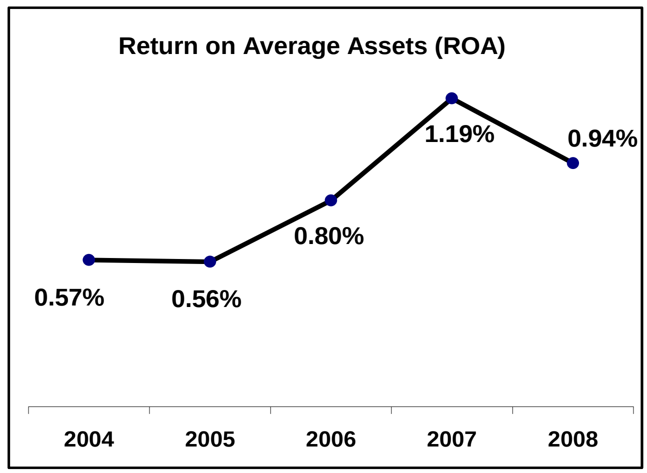
Respectfully,

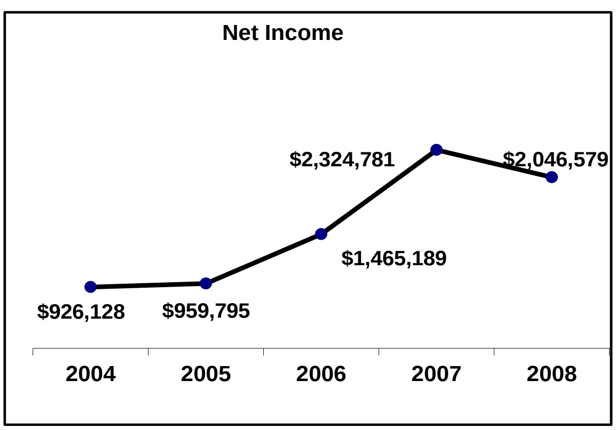
E. George Koffler
President and CEO
BEO Bancorp

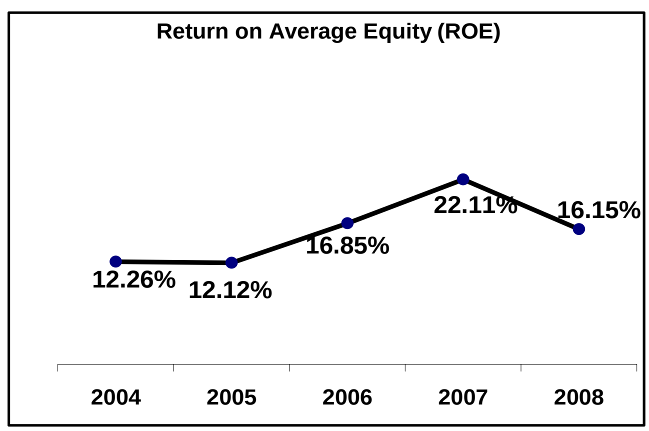
FINANCIAL HIGHLIGHTS
2004-2008

	2004	2005	2006	2007	2008
Return on Average Assets	0.57%	0.56%	0.80%	1.19%	0.94%
Return on Average Equity	12.26%	12.12%	16.85%	22.11%	16.15%
Net Income	$ 926,128	$ 959,795	$ 1,465,189	$ 2,324,781	$ 2,046,579
Net Income Per Share	$ 1.05	$ 1.09	$ 1.66	$ 2.64	$ 2.32
Total Equity	$ 7,931,180	$ 8,016,290	$ 9,349,997	$ 11,680,206	$ 13,656,743
Total Assets	$ 162,154,261	$ 174,991,145	$ 184,375,964	$ 207,635,914	$ 228,082,431









Board of Directors
December 31, 2008

Linda K LaRue, Chairman
Retired Banker

Bradley B Anderson, Vice Chairman
Farmer/Rancher

Joel Peterson
Farmer

Ned E Clark
Rancher

Gary Neal
General Manager, Port of Morrow

Robert M Armstrong
Certified Public Accountant

E. George Koffler
Chief Executive Officer
Bank of Eastern Oregon

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

Executive Officers

E. George Koffler, Chief Executive Officer
Jeff L Bailey, President and Chief Credit Officer
Gary L Prophet, Executive Vice President and Chief Operations Officer
Mark D Lemmon, Executive Vice President and Chief Financial Officer

Vice Presidents

John Bailey, Commercial Loan Officer
James Gardner, Commercial Loan Officer
Becky Kindle, Branch Administrator
Melissa Lindsay, Mortgage Division Manager
Kevin McCabe, Information Systems Manager
John Qualls, Regional Director of Lending
Robert Quinton, Commercial Loan Officer
Edward C Rollins, Regional Director of Lending
Robert Williams, Commercial Loan Officer

Assistant Vice Presidents

Janet Dezellem, Finance Officer
Dawna Dougherty, Compliance Officer
Tricia Gunderson, Human Resources Manager
Joyce Moser, Burns Branch Manager
Jill Pambrun, Commercial Loan Officer
Janice Provencher, John Day Branch Manager
Rhonda Shaffer, Commercial Loan Officer
Sheryl A Walters, Arlington Branch Manager

Independent Auditor's Report

The Board of Directors
BEO Bancorp:

We have audited the accompanying balance sheets of BEO Bancorp and Subsidiary (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BEO Bancorp and Subsidiary as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Isler CPA, LLC

Eugene, Oregon
February 6, 2009

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

	December 31	
	2008	**2007**
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 3,974,812**	$ 6,186,353
Federal Funds Sold	**485,000**	-
Total cash and cash equivalents	**4,459,812**	6,186,353
Investment securities available-for-sale	**33,422,680**	41,271,422
Loans, less allowance for loan losses	**175,790,811**	148,274,080
Interest receivable	**2,402,903**	2,098,348
Federal Home Loan Bank stock	**559,700**	559,700
Property, less accumulated depreciation	**5,879,896**	5,366,907
Core deposit intangible, less accumulated amortization	**808,429**	1,018,879
Deferred taxes, net	**1,532,883**	1,145,697
Other assets	**3,137,317**	1,714,530
	223,534,619	201,449,563
Total assets	**$ 227,994,431**	$ 207,635,916
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 33,358,442**	$ 29,842,019
Savings and interest-bearing demand	**98,357,165**	89,124,254
Time, $100,000 and over	**20,315,587**	18,107,417
Other time	**36,926,664**	33,086,514
	188,957,858	170,160,204
Other Borrowings	**16,700,704**	16,922,552
Junior subordinated debentures	**7,217,000**	7,217,000
Accrued interest payable	**263,939**	322,341
Income taxes payable	**90,674**	-
Other liabilities	**1,107,524**	1,333,613
Total liabilities	**214,337,699**	195,955,710
Stockholders' equity:		
Common stock, $5 par value; 2,500,000 shares authorized, 880,658 shares outstanding	**2,201,645**	2,201,645
Additional paid-in capital	**1,486,546**	1,486,546
Retained earnings	**9,530,417**	7,880,134
Accumulated other comprehensive income (loss)	**438,124**	111,881
Total stockholders' equity	**13,656,732**	11,680,206
Total liabilities and stockholders' equity	**$ 227,994,431**	$ 207,635,916

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

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2008	**2007**
Interest income:		
Interest and fees on loans	**$ 12,872,915**	$ 11,724,693
Interest on investment securities:		
Taxable	**1,150,627**	1,361,132
Nontaxable	**539,976**	548,072
Interest on federal funds sold and short-term time deposits	**14,399**	310,411
	14,577,917	13,944,308
Interest expense	**3,970,849**	4,711,054
Net interest income	**10,607,068**	9,233,254
Provision for loan losses	**1,778,000**	240,000
Net interest income after provision for loan losses	**8,829,068**	8,993,254
Noninterest income:		
Service charges	**1,536,005**	1,370,635
Mortgage banking income	**361,786**	440,108
Other, principally financial services income	**163,166**	189,377
	2,060,957	2,000,120
Noninterest expense:		
Salaries and employee benefits	**5,067,214**	4,882,743
Occupancy expense	**578,219**	532,774
Equipment expense	**665,484**	668,114
Losses on sales of available-for-sale securities, net	**-**	27,792
Other	**2,037,529**	1,739,170
	8,348,446	7,850,593
Income before income taxes	**2,541,579**	3,142,781
Provision for income taxes	**495,000**	818,000
Net income	**$ 2,046,579**	$ 2,324,781
Earnings per share	**$ 2.32**	**$ 2.64**

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

BEO Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2008 and 2007

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2007	$ 2,201,645	$ 1,486,546	$ 6,039,714	$ (377,908)	$ 9,349,997
Net income			2,324,781		2,324,781
Other comprehensive income (loss):					
Reclassification of losses realized on sale of investment securities				27,792	
Unrealized gains on investment securities				695,516	
Deferred income taxes				(233,519)	
Total other				489,789	489,789
Comprehensive income					2,814,570
Cash dividends ($.55 per share)			(484,361)		(484,361)
Balance, December 31, 2007	2,201,645	1,486,546	7,880,134	111,881	11,680,206
Net income			**2,046,579**		**2,046,579**
Other comprehensive income (loss):					
Reclassification of gains realized on sale of investment securities				**(1,637)**	
Unrealized gains on investment securities				**543,362**	
Deferred income taxes				**(215,482)**	
Total other				**326,243**	**326,243**
Comprehensive income					**2,372,822**
Cash dividends ($.45 per share)			**(396,296)**		**(396,296)**
Balance, December 31, 2008	**$ 2,201,645**	**$ 1,486,546**	**$ 9,530,417**	**$ 438,124**	**$ 13,656,732**

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	
	2008	**2007**
Cash flows from operating activities:		
Net income	**$ 2,046,579**	$ 2,324,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**437,736**	410,925
Net gains or losses on property dispositions	**(4,092)**	(20,707)
Net gains or losses on sales of investment securities	**(1,637)**	27,792
Amortization of investment premiums, net	**78,595**	148,730
Amortization, other	**254,087**	277,407
Provision for loan losses	**1,778,000**	240,000
Increase in cash value of life insurance	**(43,226)**	(44,252)
Deferred income taxes	**(603,000)**	17,000
Change in:		
Interest receivable and other assets	**(206,868)**	(299,860)
Deferred loan fees	**144,529**	30,385
Accrued interest and other liabilities	**(284,491)**	343,506
Income taxes payable	**90,674**	(446,670)
Net cash provided by operating activities	**3,686,886**	3,009,037
Cash flows from investing activities:		
Proceeds from maturities of investment securities	**3,764,591**	8,669,311
Proceeds from sale of available-for-sale securities	**6,563,150**	5,288,689
Purchase of investment securities	**(2,015,870)**	(8,580,428)
Purchase of loans	**(4,973,303)**	(9,238,542)
Proceeds from sale of loans	**10,700,422**	1,098,347
Proceeds from sale of property	**15,927**	458,118
Proceeds from sale of foreclosed assets	**933,000**	47,874
Loans originated, net of principal collected	**(37,618,294)**	(20,668,767)
Purchases of property	**(962,560)**	(1,057,647)
Purchase of State of Oregon income tax credits	**-**	(592,916)
Net cash used in investing activities	**(23,592,937)**	(24,575,961)
Cash flows from financing activities:		
Repurchase agreements and federal funds purchased	**(221,848)**	13,369,055
Net increase in deposits	**18,797,654**	7,706,293
Dividends paid	**(396,296)**	(484,361)
Net cash provided by financing activities	**18,179,510**	20,590,987
Net increase (decrease) in cash and cash equivalents	**(1,726,541)**	(975,937)
Cash and cash equivalents, beginning of year	**6,186,353**	7,162,290
Cash and cash equivalents, end of year	**$ 4,459,812**	$ 6,186,353

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	
	2008	**2007**
Supplemental information:		
Cash paid during the year for:		
Income taxes	**$ 1,077,948**	$ 1,345,879
Interest	**4,029,251**	4,687,518
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	**326,243**	489,789
Transfer of loans to foreclosed assets	**2,451,915**	47,874

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

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

Basis of Presentation – The consolidated financial statements include the accounts of BEO Bancorp ("Bancorp"), a bank holding company, and its wholly-owned subsidiary, Bank of Eastern Oregon (the "Bank") collectively referred to as the "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 Financial Accounting Standards Board (FASB) Interpretation No. 46(R), "Consolidation of Variable Interest Entities" the accounts and transactions of these trusts are not included in the accompanying consolidated financial statements.

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

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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". Such amounts include federal funds sold on a short-term basis.

Investment Securities – The Bank classifies all investment securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Unrealized gains and losses are excluded from earnings and are credited or charged to other comprehensive income in stockholders' equity, net of applicable deferred taxes.

Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized on the specific identification method.

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

Loans Held-for-Sale – There were no loans held-for-sale at December 31, 2008 or 2007.

Loans and Income Recognition – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees 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 is first applied to principle until the balance is paid off or until management believes that it no longer meets the definition of a non accrual loan. Loan origination fees, net of associated direct costs, if significant, are amortized by the interest method over the contractual life of the loan.

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

A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the present value of expected cash flows discounted at the loan's effective interest rate, the observable market price of the loan or the estimated fair value of the loan's collateral or related guaranty. Loans deemed impaired are specifically allocated for in the allowance for loan losses.

The Company classifies reserves for commitments to loan in other liabilities.

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

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

Federal Home Loan Bank Stock – The investment in Federal Home Loan Bank ("FHLB") stock is carried at cost, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets or FHLB advances. At December 31, 2008, the minimum required investment was $450,000. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold.

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

Core Deposit Intangible – Core deposit intangible is stated at cost, net of accumulated amortization. Amortization is recorded on an accelerated basis over 10 years, with periodic evaluation for impairment.

Impairment of Long-Lived Assets Held-for-Sale – Long-lived assets classified as held-for-sale are stated at the lower of carrying amount or fair value less costs to sell. Fair value is determined by current appraised value. An impairment loss is recognized when the carrying value exceeds fair value. There were no impairment losses on long-lived assets at December 31, 2008.

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 – Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Fair Value – Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements*, (SFAS 157) issued by the Financial Accounting Standards Board (FASB). SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS 157 as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level I include listed equities and listed derivatives.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

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

Fair Value, continued

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by the Company to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. Fair value of non-exchange-traded contracts is based on third party quoted dealer values on the Interbank market. These financial instruments are classified as Level 1 in the fair value hierarchy.

Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used. Warrants are recorded at fair value, which is based on the sum of the amount, if any, by which the estimated fair value of the underlying securities exceeds the exercise price of the warrants plus the amount of the fair value of the option feature of the warrant. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value. Short-term notes are stated at amortized cost, which approximates fair value. These financial instruments are classified as Level 2 in the fair value hierarchy.

Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the Management. Investments in investment partnerships are valued at fair value based on the applicable percentage ownership of the investment partnerships' net assets as of the measurement date, as determined by the Management. In determining fair value, the Management utilizes valuations provided by the investment partnerships. The investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of

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

Fair Value, continued

certain investments of the investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment partnerships and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Company's investments in investment partnerships generally represents the amount the Company would expect to receive if it were to liquidate its investment in the other investment partnerships excluding any redemption charges that may apply. These financial instruments are classified in Level 3 of the fair value hierarchy.

Recently Issued Accounting Pronouncements – In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value. If elected, subsequent changes in fair value would be reported in earnings and the Company would be required to make additional disclosures related to the election to use fair value reporting. It also requires the Company to display the fair value of those assets and liabilities on the face of the balance sheet for which the Company has elected to use fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not opt to implement SFAS 159.

In March 2008, the FASB issued SFAS No.161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. This statement was issued due to the use and complexity of derivative instruments and hedging activities having increased significantly over the past several years. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact of the adoption of SFAS 161.

Reclassifications – Certain 2007 amounts have been reclassified where appropriate to conform with the financial statements presentation used in 2008. These reclassifications had no effect on previously reported net income.

Earnings Per Share – Earnings per share are computed on the basis of the weighted average number of shares outstanding during each year.

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

Common Stock – The shareholders of Bancorp voted to increase the number of authorized shares from 500,000 to 2,500,000 at the 2007 annual shareholder meeting. During 2007 the Bancorp board of directors authorized a two for one stock split that increased the number of shares outstanding from 440,329 to 880,658.

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, 2008 and 2007 were approximately $10,000 and $108,000, respectively, and were met by holding cash and maintaining an average balance with the Federal Reserve Bank.

3. **Investment Securities Available-for-Sale**:

The amortized cost and estimated fair values of investment securities available-for-sale at December 31, 2008 and 2007 are as follows:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligation of U.S. Government agencies	**$ 10,975,435**	**$ 642,263**		**$ 11,617,698**
Mortgage-backed securities	**11,256,364**	**126,177**	**(2,403)**	**11,380,138**
Obligations of states and political subdivisions	**10,479,641**	**156,437**	**(211,234)**	**10,424,844**
	$ 32,711,440	**$ 924,877**	**$ (213,637)**	**$ 33,422,680**

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligation of U.S. Government agencies	$ 11,467,368	$ 379,163	$ -	$ 11,846,531
Mortgage-backed securities	14,176,201	396	(281,315)	13,895,282
Obligations of states and political subdivisions	15,458,337	141,457	(70,185)	15,529,609
	$ 41,101,906	$ 521,016	$ (351,500)	$ 41,271,422

3. **Investment Securities Available-for-Sale**, Continued:

Investment securities that were in unrealized loss positions as of December 31, 2008 and 2007 are presented in the following tables, based on the length of time that individual securities were in unrealized loss positions. In the opinion of management, these securities are considered only temporarily impaired due to interest rate differentials as compared to current market conditions:

Securities in Unrealized Loss Positions as of December 31, 2008

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ -	$ -	$ 507,968	$ (2,403)	$ 507,968	$ (2,403)
Obligations of states and political subdivisions	4,861,740	(179,224)	272,082	(32,010)	5,133,822	- (211,234)
Total	$ 4,861,740	$ (179,224)	$ 780,050	$ (34,413)	$ 5,641,790	$ (213,637)

Securities in Unrealized Loss Positions as of December 31, 2007

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ -	$ -	$ 13,878,398	$ (281,315)	$ 13,878,398	$ (281,315)
Obligations of states and political subdivisions	4,486,891	(59,450)	2,661,967	(10,735)	7,148,858	- (70,185)
Total	$ 4,486,891	$ (59,450)	$ 16,540,365	$ (292,050)	$ 21,027,256	$ (351,500)

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

3. **Investment Securities Available-for-Sale**, Continued:

The amortized cost and estimated fair value of investment securities at December 31, 2008 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.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,067,677	$ 4,148,197
Due after one year through five years	9,809,186	10,442,265
Due after five years	7,578,213	7,452,080
Mortgage-backed securities	11,256,364	11,380,138
	$ 32,711,440	$ 33,422,680

During 2008 and 2007 the Bank sold available-for-sale securities to provide funds to support loan growth. Total proceeds from the sales were $6,563,150 and $5,288,689 with net realized gains of $1,637 in 2008 and net realized losses of $27,792 in 2007.

At December 31, 2008, investment securities with amortized costs of $15,232,615 and estimated fair values of $15,725,083 were pledged for public deposits, repurchase agreements and Federal Home Loan Bank borrowings ($27,811,950 and $27,924,412 in 2007, respectively).

4. **Loans**:

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

	2008	2007
Commercial loans	**$ 19,090,828**	$ 19,839,304
Agriculture loans	**33,916,390**	30,061,236
Commercial Real Estate loans	**36,973,437**	26,602,931
Municipal loans	**14,943,076**	12,424,333
Real estate loans	**70,596,517**	56,936,109
Consumer loans	**4,389,197**	4,414,226
	179,909,445	150,278,139
Deferred loan origination fees	**(483,560)**	(339,031)
	179,425,885	149,939,108
Allowance for loan losses	**(3,635,074)**	(1,665,028)
	$ 175,790,811	$ 148,274,080

The loan portfolio at December 31, 2008 and 2007 includes $117,429,761 and $95,080,851, respectively, of loans which have a variable rate of interest. The December 31, 2008 amount includes $88,415,915 of loans with interest rates at their contractual floors.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of such serviced loans was $1,135,085 and $1,933,785 at December 31, 2008 and 2007, respectively.

The total loans outstanding on December 31 which were on a nonaccrual basis, contractually past due 90 days or more as to interest or principal payments or modified as to the original agreement to terms more favorable than market conditions, are as follows:

	Nonaccrual Loans	Loans Past Due 90 Days or More and Still Accruing	Renegotiated Loans
2008:			
Commercial Real Estate	**$ 1,066,108**	**$ -**	**$ -**
Real estate	**1,360,537**	**-**	**1,326,525**
	$ 2,426,645	**$ -**	**$ 1,326,525**
2007:			
Commercial	$ -	$ -	$ 153,192
Commercial Real Estate	$ -	$ -	$ 723,411
Real estate	-	4,408	110,257
	$ -	$ 4,408	$ 986,860

4. **Loans**, Continued:

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2008	2007
Balance, beginning of year	**$ 1,665,028**	$ 1,446,348
Loans charged off	**(424,181)**	(24,891)
Provision charged to income	**1,778,000**	240,000
Recoveries credited to allowance	**616,227**	3,571
Transferred to liability for unfunded commitments	**-**	-
Balance, end of year	**$ 3,635,074**	$ 1,665,028

Restructured and other loans considered impaired, including all non-accrual loans, totaled $6,445,644 and $1,426,266 at December 31, 2008 and 2007, respectively. The specific valuation allowance for loan losses related to these impaired loans was $101,239 and $100,486 at December 31, 2008 and 2007, respectively. The average recorded investment in impaired loans was approximately $3,935,955 and $449,318 in 2008 and 2007, respectively. Interest income recognized on impaired loans totaled $333,023 and $34,925 in 2008 and 2007 respectively. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was approximately $229,120 and $0 in 2008 and 2007, respectively.

Concentration of Credit Risk – The Bank grants agricultural, commercial, consumer and mortgage loans to customers throughout Northeastern Oregon. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the region's agribusiness economic sector. Credit losses from agricultural loans does not differ significantly from the Bank's credit loss experience on its loan portfolio as a whole. The Bank's policy for requiring collateral on agricultural loans does not differ substantially from collateral requirements in its other lending.

5. **Property**:

Property at December 31 consists of the following:

	2008	2007
Land	**$ 762,903**	$ 487,487
Buildings and improvements	**5,760,989**	5,458,702
Furniture and equipment	**3,090,515**	2,859,786
	9,614,407	8,805,975
Accumulated depreciation	**3,734,511**	3,439,068
	$ 5,879,896	$ 5,366,907

During 2007 the Bank began construction on a new branch building. The construction-in-process amounts paid during 2007 were $746,458 and are included in buildings and improvements for the year ended December 31, 2007. The building was finished during 2008 and no amounts are capitalized as construction in progress as of December 31, 2008.

6. **Core Deposit Intangible**:

Core deposit intangible consists of the following:

	2008	2007
Purchase cost in 2003	**$ 2,109,512**	$ 2,109,512
Accumulated amortization	**1,301,083**	1,090,533
	$ 808,429	$ 1,018,979

Forecasted amortization for the next five years is as follows:

2009	192,082
2010	175,740
2011	161,174
2012	148,166
2013	131,267

7. **Other Assets**:

Other assets at December 31 consist of the following:

	2008	2007
Cash value of life insurance (Note 12)	**$ 1,140,768**	$ 1,097,542
Prepaid expenses	**226,911**	238,505
Capitalized trust preferred securities issuance costs, net of $120,000 and $96,000 amortization in 2008 and 2007, respectively	**-**	24,000
Foreclosed Assets	**1,518,915**	-
Investment in unconsolidated subsidiaries (Trusts) (Note 10)	**217,000**	217,000
Income tax deposits	**-**	98,209
Other items, net	**33,723**	39,274
	$ 3,137,317	$ 1,714,530

8. **Deposits**:

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

	2008	2007
Less than one year	**$ 45,625,947**	$ 14,391,668
One to three years	**10,938,344**	30,296,986
Three to five years	**677,960**	6,505,277
	$ 57,242,251	$ 51,193,931

9. **Borrowings**:

Borrowings at December 31 consist of the following:

	2008		2007	
	Average Rate	Balance	Average Rate	Balance
Repurchase Agreements (fixed rate)	**1.26%**	**$ 6,700,704**	2.15%	$ 5,387,552
Federal Home Loan Bank:				
Cash Management Advances (overnight)		**-**	4.35%	11,500,000
Fixed rate term loan (Due January 2, 2018)	**2.56%**	**5,000,000**		
Fixed rate term loan (Due April 10, 2013)	**2.71%**	**5,000,000**		
Federal Funds with correspondent banks		**-**	4.95%	35,000
Total		**$ 16,700,704**		$ 16,922,552

Investment securities are pledged as collateral in an amount equal to the repurchase agreements..

The Bank has two putable advances to the Federal Home Loan Bank of Seattle outstanding at December 31, 2008 with balances of $5,000,000 each. The first obligation has a maturity of January 2, 2018 and is callable quarterly at the option of the Federal Home Loan Bank of Seattle. The second obligation has a maturity of April 10, 2013 and is callable at the option of the Federal Home Loan Bank of Seattle on April 10, 2010 and every three months thereafter. Both require monthly interest only payments until maturity or the obligation is called.

At December 31, 2008, the Bank has additional credit available totaling approximately $17,691,210 from the Federal Home Loan Bank of Seattle, $15,000,000 of federal funds lines with correspondent banks and $7,948,700 with the Federal Reserve Bank of San Francisco.

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

10. **Junior Subordinated Debentures**:

As of December 31, 2008, Bancorp had two wholly-owned trusts ("Trusts") that were formed to issue trust preferred securities and related common securities. The Trusts issued Capital Securities ("Trust Preferred Securities") and invested the proceeds in a like amount of Junior Subordinated Debentures ("Debentures") of BEO Bancorp. Interest distributions on the Trust Preferred Securities are payable quarterly and are deferrable, at Bancorp's option, for up to five years. The Debentures bear the same terms and interest rates as the related Trust Preferred Securities. The Debentures are the sole assets of the Trusts. Bancorp has unconditionally guaranteed all of the obligations of the Trusts.

Following are the terms of the Trust Preferred Securities:

	BEO Statutory Trust I	BEO Statutory Trust II
Amount outstanding	$4,124,000	$3,093,000
Date of original issue	December 17, 2003	March 17, 2005
Stated maturity	December 17, 2033	March 17, 2035
Optional redemption date	Began December 17, 2008	March 17, 2010
Interest rate	3-month LIBOR plus 2.85% (4.72% at December 31, 2008)	6.42% fixed for 5 years then 3-month LIBOR plus 1.90%

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

In accordance with provisions of FIN 46, the Trusts have not been consolidated in these financial statements. The $7,217,000 of Debentures issued to the Trusts as of December 31, 2008 is reflected as junior subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets (Note 7) in the consolidated balance sheets.

11. **Interest Expense**:

Interest expense for the years ended December 31 is comprised of the following:

	2008	2007
Savings and interest-bearing demand	**$ 1,271,101**	$ 1,928,374
Time deposits in excess of $100,000	**686,113**	749,450
Other time deposits	**1,119,421**	1,292,138
Interest expense on deposits	**3,076,635**	3,969,962
Interest on junior subordinated debentures (Note 10)	**441,208**	527,342
Interest expense on short-term borrowings	**453,006**	213,750
Total interest expense	**$ 3,970,849**	$ 4,711,054

12. **Benefit Plans**:

The Bank has a 401(k) profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. During 2008 the plan documents were amended to allow the employer profit sharing contributions to be invested in BEO Bancorp common stock. Employer contributions were $237,290 and $187,978 in 2008 and 2007, respectively. During 2008 the plan purchased 6,409 shares of BEO Bancorp stock at a cumulative purchase price of $151,410.

The Bank has deferred compensation plans covering certain key officers. At December 31, 2008 and 2007, the liabilities related to these plans included in the accompanying consolidated balance sheets totaled $665,437 and $622,460, respectively. During 2008 and 2007 $31,567 and $5,262 was paid in benefits and the amount of expense charged to income was $39,556 and $86,864, respectively. To assist in the funding of the plans, the Bank is owner and beneficiary of life insurance on the key officers. The cash surrender value of these policies at December 31, 2008 and 2007, respectively, was $1,140,768 and $1,097,542, and is included in other assets (Note 7).

13. **Other Expense:**

Other expenses for the years ended December 31 are comprised of the following:

	2008	2007
Supplies, printing and postage	**$ 246,319**	$ 251,488
Amortization of core deposit intangible (Note 6)	**210,550**	231,142
Other amortization	**43,637**	46,265
Advertising and public relations	**236,109**	252,550
Professional services and examination expense	**98,316**	168,441
Communications	**75,465**	73,095
Other noninterest expense	**1,127,133**	716,189
	$ 2,037,529	$ 1,739,170

14. **Income Taxes**:

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

	2008	2007
Currently payable:		
Federal	**$ 1,026,987**	$ 796,000
State	**71,013**	5,000
	1,098,000	801,000
Deferred:		
Federal	**(499,000)**	14,000
State	**(104,000)**	3,000
	(603,000)	17,000
	$ 495,000	$ 818,000

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

	2008	2007
Tax on income at statutory rate (34%)	**$ 864,137**	$ 1,068,540
State income tax, net of federal benefit	**47,039**	3,470
Nontaxable interest income, net of allocable interest expense	**(406,646)**	(283,118)
Other	**(9,530)**	29,108
	$ 495,000	$ 818,000

14. **Income Taxes**, Continued:

The provision for deferred income taxes (benefit) results from timing differences in the recognition of transactions for financial statement and tax purposes. The nature and tax effects of these differences for the years ended December 31 are as follows:

	2008	2007
Deferred compensation not deducted for tax purposes	**$ (16,503)**	$ (13,203)
Loan origination costs	**25,552**	507
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	**(682,752)**	(84,192)
Depreciation and amortization	**17,500**	23,851
Other	**53,203**	90,037
	$ (603,000)	$ 17,000

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

	2008	2007
Assets:		
Allowance for loan losses	**$ 1,309,366**	$ 538,014
Deferred compensation	**254,563**	240,643
Excess book over tax depreciation, amortization and impairment charges	**66,332**	82,067
Purchased Oregon tax credits - adjusted cost	**355,750**	474,333
Total deferred tax assets	**1,986,011**	1,335,057
Liabilities:		
Unrealized gain on investment securities available-for-sale	**273,117**	57,635
Loan origination costs	**84,835**	59,215
Prepaid Expenses	**63,935**	41,305
Federal Home Loan Bank stock basis	**31,241**	31,205
Total deferred tax liabilities	**453,128**	189,360
Net deferred tax assets	**$ 1,532,883**	$ 1,145,697

The Company has unused purchased energy tax credits of $530,970 as of December 31, 2008. These tax credits are expected to provide state income tax benefits of $176,990 per year, from 2009 through 2011. Based on the Company's historical performance, Management believes that these energy tax credits and all net deferred tax assets will be recognized in the normal course of operations and, accordingly, they have not been reduced by a valuation allowance.

14. **Income Taxes**, Continued:

The company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2008. There was no change in the calculation of unrecognized tax benefits as a result of adoption.

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

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

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

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

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

	2008	2007
Commitments to extend credit	**$ 43,439,608**	$ 38,659,700
Standby letters of credit and financial guarantees written	**1,075,000**	1,009,400

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. The aggregate dollar amount of these loans outstanding was $1,598,352 and $1,814,445 at December 31, 2008 and 2007, respectively. Activity with respect to these loans during the year ended December 31 was as follows:

	2008	2007
Balance, January 1	**$ 1,814,445**	$ 1,616,031
Additions or renewals	**1,476,524**	1,759,089
Amounts collected or renewed	**(1,692,617)**	(1,560,675)
Balance, December 31	**$ 1,598,352**	$ 1,814,445

In addition, there were $786,559 and $543,152 in commitments to extend credit to directors and officers at December 31, 2008 and 2007, respectively, 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 Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures About Fair Value of Financial Instruments*. 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:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 4,459,812	$ 4,459,812	$ 6,186,351	$ 6,186,351
Securities	33,422,680	33,422,680	41,271,422	41,271,422
Loans, net of allowance for loan losses	175,790,811	181,559,080	148,274,080	151,618,398
Interest receivable	2,402,903	2,402,903	2,098,348	2,098,348
Federal Home Loan Bank stock	559,700	559,700	559,700	559,700
Financial liabilities:				
Deposits	188,957,858	189,388,643	170,160,204	170,353,698
Repurchase agreements	16,700,704	16,700,704	16,922,552	16,922,552
Junior subordinated debentures	7,217,000	6,871,699	7,217,000	7,172,379
Accrued interest payable	263,939	263,939	322,339	322,339

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

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

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

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. In accordance with provisions of SFAS No. 107, the estimated fair values of deposits do not take into account the benefit that results from low-cost funding such deposits provide.

17. **Fair Value Disclosures of Financial Instruments**, Continued:

Repurchase agreements – The carrying amount is a reasonable estimate of fair value because of the short-term nature of these borrowings.

Junior subordinated debentures – The fair value of fixed rate issuances is estimated using a discounted cash flow calculation. For variable rate issuances, the carrying amount approximates fair value.

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

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Securities	$ 33,422,680	$ -	$ 33,422,680	$ -

18. **Regulatory Matters**:

Bancorp and the Bank are subject to the regulations of certain federal and state agencies and receive periodic examinations by those regulatory authorities. In addition, Bancorp and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board ("FRB") and Federal Deposit Insurance Corporation ("FDIC"). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bancorp and 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. Bancorp's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

18. **Regulatory Matters**, Continued:

Quantitative measures established by regulation to ensure capital adequacy require Bancorp and the Bank to maintain minimum amounts and ratios (set forth in the following table below) of Total and Tier I capital to risk-weighted assets, and of Tier I capital to leverage assets, all as defined in the regulations. Management believes, as of December 31, 2007, that Bancorp and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the FRB and FDIC categorized Bancorp and the Bank as well capitalized. To be categorized as well capitalized Bancorp and the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

Debentures issued to the Trusts, less the common stock of the Trusts, qualify as Tier 1 capital, subject to a 25% of Tier 1 capital limitation (Note 10). The FRB allows the inclusion of trust preferred securities in Tier 1 capital, within quantitative limits. Under this rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier 1 capital elements, net of goodwill, including core deposit intangibles. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions.

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008:						
Total capital (to risk-weighted assets)	**$ 21,916**	**10.99%**	**$ 15,958**	8%	**$ 19,948**	10%
Tier I capital (to risk-weighted assets)	**17,264**	**8.65%**	**7,979**	4%	**11,969**	6%
Tier I capital (to leverage assets)	**17,264**	**7.56%**	**9,129**	4%	**11,411**	5%
As of December 31, 2007:						
Total capital (to risk-weighted assets)	$ 19,239	11.00%	$ 13,991	8%	$ 17,489	10%
Tier I capital (to risk-weighted assets)	14,406	8.24%	6,996	4%	10,493	6%
Tier I capital (to leverage assets)	14,406	7.14%	8,071	4%	10,089	5%

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008:						
Total capital (to risk-weighted assets)	**$ 21,928**	**11.00%**	**$ 15,941**	8%	**$ 19,926**	10%
Tier I capital (to risk-weighted assets)	**19,423**	**9.75%**	**7,971**	4%	**11,956**	6%
Tier I capital (to leverage assets)	**19,423**	**8.51%**	**9,126**	4%	**11,408**	5%
As of December 31, 2007:						
Total capital (to risk-weighted assets)	$ 19,235	11.00%	$ 13,995	8%	$ 17,494	10%
Tier I capital (to risk-weighted assets)	17,545	10.03%	6,998	4%	10,497	6%
Tier I capital (to leverage assets)	17,545	8.70%	8,068	4%	10,086	5%

19. **Parent Company Financial Information**:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2008	2007
Assets:		
Cash, deposited with the Bank	**$ 4,674**	$ 1,193
Investments in:		
Bank subsidiary	**20,668,729**	18,675,309
Nonbank subsidiaries (Trusts)	**217,000**	217,000
Trust preferred securities issuance costs, net of amortization	**-**	24,000
	$ 20,890,403	$ 18,917,502
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	**$ 16,671**	$ 20,296
Junior subordinated debentures (Trusts)	**7,217,000**	7,217,000
Total liabilities	**7,233,671**	7,237,296
Stockholders' equity:		
Common stock	**2,201,645**	2,201,645
Surplus	**1,486,546**	1,486,546
Retained earnings and accumulated other comprehensive income	**9,968,541**	7,992,015
Total stockholders' equity	**13,656,732**	11,680,206
Total liabilities and stockholders' equity	**$ 20,890,403**	$ 18,917,502

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

STATEMENTS OF INCOME

	Year Ended December 31	
	2008	**2007**
Cash dividends from Bank	**666,196**	$ 774,335
Less:		
Interest expense	**(441,208)**	(527,342)
Professional fees and administrative expenses	**(57,600)**	(48,061)
Amortization of trust preferred securities issuance costs	**(24,000)**	(24,000)
Income before equity in undistributed earnings of the Bank	**143,388**	174,932
Equity in undistributed earnings of Bank	**1,667,191**	1,913,849
Income tax benefits	**236,000**	236,000
Net income	**$2,046,579**	$ 2,324,781

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2008	**2007**
Operating activities:		
Net income	**$2,046,579**	$ 2,324,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	**(1,667,191)**	(1,913,849)
Amortization of trust preferred securities issuance costs	**24,000**	24,000
Accrued interest payable	**(3,611)**	(594)
Net cash provided by operating activities	**399,777**	434,338
Financing activities:		
Dividends paid	**(396,296)**	(484,361)
Net cash provided by (used in) financing activities	**(396,296)**	(484,361)
Net increase (decrease) in cash	**3,481**	(50,023)
Cash, beginning of year	**1,193**	51,216
Cash, end of year	**$ 4,674**	$ 1,193