BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditors' Report

Years Ended December 31, 2011 and 2010

ISLER CPA, LLC
CERTIFIED PUBLIC ACCOUNTANTS
EUGENE, OREGON

C O N T E N T S

BEOBANCORP
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 to you the financial statements and operating results of BEO Bancorp and Bank of Eastern Oregon for 2011. Not only was profitability up year over year, but the overall outlook for banking in general has improved over the past year. Looking back at 2011 we see a very strong agricultural sector, with high commodity prices and fabulous production. This helped to somewhat insulate us from the continued turmoil of the national and global economy.

While we continued to deal with the lingering effects of the great housing crisis of 2008-2009, 2011 was a very strong year for BEO Bancorp. Consolidated after tax net income for BEO Bancorp in 2011 was $2,012,000; up 21.5% from 2010. Return on Average Assets for 2011 was 0.79% compared to 0.67% in 2010. Return on Average Equity was 12.2% in 2011 vs. 11.0% in 2010. Net earnings per share were $2.18 in 2011 up 21.5% from the 2010 level of $1.80. While these results compare favorably to 2010 results, they also compare favorably with peer institutions across the country. The primary driving force behind the improvement is efficiency in operations as well as an increase in net interest income. While profitability is strong, we also took prudent steps to address provision for potential loan losses and decreased valuation of other real estate. Our expense associated with loan loss provision and other real estate owned in 2011 was similar to 2010 levels at $1,782,000 and $1,527,000, respectively.

Your Bank continued to experience steady and managed growth in 2011. Stockholders' equity growth was strong going from $15,637,000 to $17,554,000; an increase of 12.3%. Capital growth most importantly added to Bank of Eastern Oregon's soundness where the regulatory Tier 1 capital ratio improved from 10.17% at December 31, 2010 to 10.63% at December 31, 2011. Total assets were at $260,437,000 up 3.5% year over year; deposits set another all time high of $230,331,000 up 3.0% from 2010. Net loans increased 4.2% to $199,907,000. We are pleased with the growth statistics and are appreciative of the confidence placed in our institution by our customers. Even in the current low interest rate environment our growth is indicative of our customers' satisfaction with our staff, products and services. We have a knowledgeable and professional staff that truly cares about our customers and our rural eastern Oregon communities. I am grateful for their dedication and daily efforts.

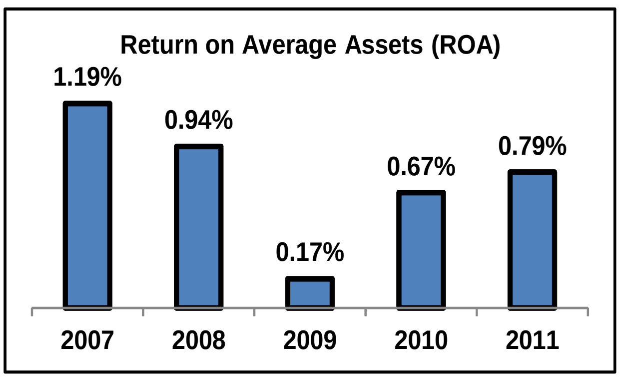
As shareholders, thank you for your continued investment and confidence in BEO Bancorp. I cordially invite you to attend our annual meeting of shareholders where we will provide a recap of 2011, elect directors and offer a glimpse at what we expect in 2012. We will meet on Wednesday, April 25, 2012 at 2:00 pm at the American Legion Hall in Ione, OR. Please note the time of **2:00 pm**.

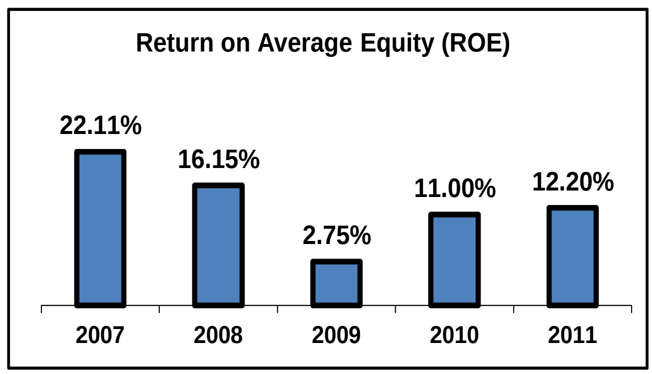
Sincerely,

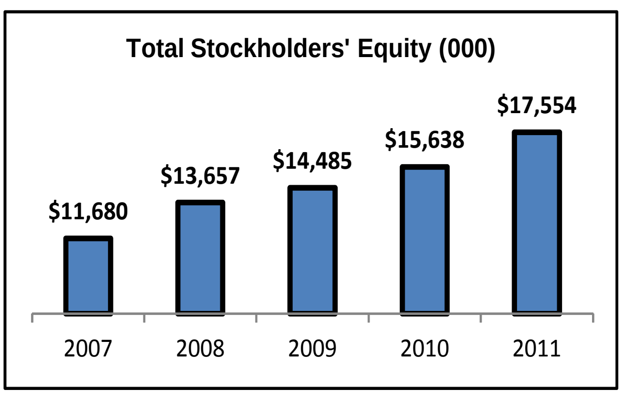
Jeff L. Bailey
President and CEO
BEO Bancorp

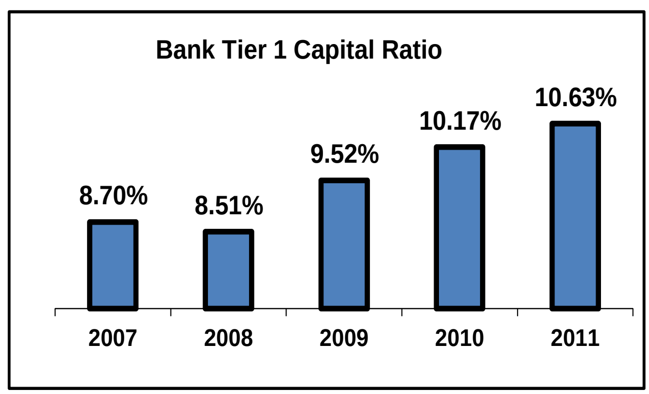
FINANCIAL HIGHLIGHTS
2007-2011

	2007	2008	2009	2010	2011
Return on Average Assets	1.19%	0.94%	0.17%	0.67%	0.79%
Return on Average Equity	22.11%	16.15%	2.75%	11.00%	12.20%
Net Income	$2,324,781	$2,046,579	$386,721	$1,656,016	$2,011,567
Net Income Per Share	$2.64	$2.32	$0.43	$1.80	$2.18
Total Equity (000)	$11,680	$13,657	$14,485	$15,638	$17,554
Total Assets (000)	$207,636	$228,082	$239,841	$251,734	$260,437
Bank Tier 1 Capital Ratio	8.70%	8.51%	9.52%	10.17%	10.63%









December 31, 2011

Board of Directors

Bradley B Anderson, Chairman
Farmer/Rancher

Joel Peterson
Farmer

Gary Neal
General Manager, Port of Morrow

E. George Koffler
Chief Credit Officer
Bank of Eastern Oregon

Robert M Armstrong, Vice Chairman
Certified Public Accountant

Ned E Clark
Rancher

Linda LaRue
Retired Banker

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

Executive Officers

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

Senior Vice Presidents

Becky Kindle, Senior Vice President of Operations
John Qualls, Senior Vice President and Senior Loan Officer
Edward Rollins, Senior Vice President of Credit Administration

Vice Presidents

John Bailey, Commercial Loan Officer
James Gardner, Commercial Loan Officer
Tricia Gunderson, Human Resources Manager
Kevin McCabe, Information Systems Manager
Robert Quinton, Commercial Loan Officer
Robert Williams, Commercial Loan Officer

Assistant Vice Presidents

Christy Correa, Finance Coordinator
Janet Dezellem, Finance Officer
Dawna Dougherty, Compliance Officer
Joyce Moser, Mortgage Loan Officer
Jill Pambrun, Commercial Loan Officer
Janice Provencher, John Day Branch Manager
Rhonda Shaffer, Commercial Loan Officer
Sheryl A Walters, Arlington Branch Manager
Karen Cossit, Fossil Branch Manager
Jennifer Smith, Moro Branch Manager

ISLER CPA
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
An Independently Owned Member McGLADREY ALLIANCE | McGladrey

Independent Auditor's Report

The Board of Directors
BEO Bancorp:

We have audited the accompanying consolidated balance sheets of BEO Bancorp and Subsidiary ("BEO") as of December 31, 2011 and 2010, 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 Bank'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 audit 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 as of December 31, 2011 and 2010, and the results of their operations and their 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
March 12, 2012

1976 Garden Ave., Eugene, OR 97403
541-342-5161 www.islercpa.com

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

	December 31	
	2011	**2010**
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 2,363,908**	$ 2,153,204
Interest bearing deposits at other financial institutions	**9,209,310**	10,210,013
Federal funds sold	**3,030,000**	3,060,000
Total cash and cash equivalents	**14,603,218**	15,423,217
Investment securities available-for-sale	**22,131,723**	25,728,024
Investment securities held-to-maturity	**5,490,300**	-
Loans, less allowance for loan losses	**199,907,278**	191,811,863
Interest receivable	**2,474,995**	2,406,718
Federal Home Loan Bank stock	**559,700**	559,700
Property, less accumulated depreciation	**6,901,852**	7,003,803
Core deposit intangible, less accumulated amortization	**279,433**	440,607
Deferred taxes, net	**908,022**	1,379,945
Other assets	**7,180,276**	6,980,070
	245,833,579	236,310,730
Total assets	**$ 260,436,797**	$ 251,733,947
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 54,529,544**	$ 43,707,970
Savings and interest-bearing demand	**117,788,160**	112,267,127
Time, $100,000 and over	**14,629,595**	19,168,248
Other time	**43,384,020**	48,426,875
	230,331,319	223,570,220
Subordinated debentures	**11,322,000**	11,322,000
Interest payable	**100,225**	151,118
Other liabilities	**1,128,937**	1,052,972
Total liabilities	**242,882,481**	236,096,310
Stockholders' equity:		
Common stock, $5 par value, 3,000,000 shares authorized 922,118 outstanding December 31, 2011 and 2,500,000 authorized 922,118 outstanding December 31, 2010	**2,408,945**	2,408,945
Additional paid-in capital	**1,690,193**	1,690,193
Retained earnings	**13,031,449**	11,388,730
Accumulated other comprehensive income	**423,729**	149,769
Total stockholders' equity	**17,554,316**	15,637,637
Total liabilities and stockholders' equity	**$ 260,436,797**	$ 251,733,947

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

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2011	2010
Interest income:		
Interest and fees on loans:		
Taxable	**$12,473,110**	$12,177,196
Nontaxable	**432,566**	403,059
Interest on investment securities:		
Taxable	**540,333**	621,230
Nontaxable	**188,976**	294,436
Interest on federal funds sold and short-term time deposits	**35,685**	41,017
	13,670,670	13,536,938
Interest expense	**1,548,808**	2,252,988
Net interest income	**12,121,862**	11,283,950
Provision for loan losses	**1,325,000**	1,265,000
Net interest income after provision for loan losses	**10,796,862**	10,018,950
Noninterest income:		
Service charges	**1,432,069**	1,494,987
Mortgage banking income	**306,770**	323,090
Gain on sales of available-for-sale securities, net	**16,571**	534,586
Other	**326,888**	148,072
	2,082,298	2,500,735
Noninterest expense:		
Salaries and employee benefits	**5,825,225**	5,484,055
Occupancy expense	**661,440**	636,998
Equipment expense	**690,359**	733,245
Foreclosed asset expenses	**457,184**	335,376
Prepayment fees on early extinguishment of borrowings	**-**	553,880
Other	**2,587,385**	2,423,115
	10,221,593	10,166,669
Income before income taxes	**2,657,567**	2,353,016
Provision for income taxes	**646,000**	697,000
Net income	**$ 2,011,567**	$ 1,656,016
Basic earnings per share	**$ 2.18**	$ 1.80
Diluted earnings per share	**$ 2.18**	$ 1.80

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, 2011 and 2010

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2010	$ 2,296,705	$ 1,598,673	$ 9,917,138	$ 672,750	$14,485,266
Issuance of 22,448 shares	112,240	91,520			203,760
Net income			1,656,016		1,656,016
Other comprehensive income (loss):					
Reclassification of gains realized on sale of investment securities				(534,586)	
Unrealized gains(losses) on investment securities				(257,810)	
Deferred income taxes				269,415	
Total other				(522,981)	(522,981)
Comprehensive income					1,133,035
Cash dividends ($.20 per share)			(184,424)		(184,424)
Balance, December 31, 2010	2,408,945	1,690,193	11,388,730	149,769	15,637,637
Net income			**2,011,567**		**2,011,567**
Other comprehensive income (loss):					
Reclassification of gains realized on sale of investment securities				**(16,571)**	
Unrealized gains (losses) on investment securities				**431,662**	
Deferred income taxes				**(141,131)**	
Total other				**273,960**	**273,960**
Comprehensive income					**2,285,527**
Cash dividends ($.40 per share)			**(368,848)**		**(368,848)**
Balance, December 31, 2011	**$ 2,408,945**	**$ 1,690,193**	**$ 13,031,449**	**$ 423,729**	**$17,554,316**

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	
	2011	**2010**
Cash flows from operating activities:		
Net income	**$ 2,011,567**	$ 1,656,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**472,914**	459,030
Net gains or losses on property dispositions	**48,243**	14,852
Net gains on sales of investment securities	**(16,571)**	(534,586)
Prepayment fees on early extinguishment of borrowings	**-**	553,880
Amortization of investment premiums, net	**85,587**	92,337
Amortization of core deposit intangible and organization expenses	**171,174**	186,418
Issuance of stock for services and fees	**-**	105,600
Provision for loan losses	**1,325,000**	1,265,000
Write down of foreclosed assets	**236,963**	261,575
Increase in cash value of life insurance	**(169,850)**	(44,550)
Deferred income taxes	**330,000**	209,000
Change in:		
Interest receivable and other assets	**380,008**	1,010,496
Deferred loan fees	**(108,375)**	90,703
Accrued interest and other liabilities	**25,072**	204,349
Net cash provided by operating activities	**4,791,732**	5,530,120
Cash flows from investing activities:		
Proceeds from maturities of investment securities	**12,443,809**	15,864,388
Proceeds from sale of available-for-sale securities	**306,747**	12,214,797
Purchase of investment securities	**(14,298,480)**	(21,894,646)
Purchase of loans	**(3,220,645)**	(10,730,536)
Purchase of bank owned life insurance	**-**	(2,750,000)
Proceeds from sale of foreclosed assets	**401,619**	2,057,006
Loans originated, net of principal collected	**(7,232,731)**	(15,498,710)
Purchases of property	**(404,301)**	(896,682)
Net cash provided (used) in investing activities	**(12,003,982)**	(21,634,383)
Cash flows from financing activities:		
Other Borrowings	**-**	(10,553,880)
Net increase in deposits	**6,761,099**	19,160,872
Proceeds from issuance of subordinated debt	**-**	1,375,000
Issuance of Common Stock	**-**	98,160
Dividends paid	**(368,848)**	(184,424)
Net cash provided by financing activities	**6,392,251**	9,895,728
Net decrease in cash and cash equivalents	**(819,999)**	(6,208,535)
Cash and cash equivalents, beginning of year	**15,423,217**	21,631,752
Cash and cash equivalents, end of year	**$ 14,603,218**	$ 15,423,217

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	
	2011	2010
Supplemental information:		
Cash paid during the year for:		
Income taxes	**$ 623,140**	$ 100,052
Interest	**1,599,701**	2,335,931
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	**273,960**	(522,981)
Transfer of loans to foreclosed assets	**1,141,336**	14,403,757

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"). 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. 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.

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. The Company has evaluated subsequent events through March 12, 2012, the date the financial statements are available for distribution. Certain prior year amounts may have been reclassified to conform to the current year presentation.

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 interest bearing deposits and federal funds sold on a short-term basis and may exceed amounts insured by FDIC.

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 Company had no trading securities at December 31, 2011 or 2010.

1. Summary of Significant Accounting Policies, Continued:

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 Topic 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.

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.

1. Summary of Significant Accounting Policies, Continued:

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 have a specifically allocated reserve within the allowance for loan losses.

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 Company classifies reserves for 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, 2011, the minimum required investment was $101,000. 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 – 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.

1. Summary of Significant Accounting Policies, Continued:

Core Deposit Intangible – Core deposit intangible is stated at cost, net of accumulated amortization. Amortization is recorded on an accelerated basis through 2013, with periodic evaluation for impairment.

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

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

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated on differences between financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some of the potential deferred tax asset will not be recognized.

Uncertain tax positions are accounted for in accordance with ASC 740 which prescribes recognition and measurement standards for uncertain income tax positions. The Standard provides guidance on recognition, derecognition, interest, penalties and disclosure. There is no material impact of potential tax uncertainties on Bancorp's financial condition or results of operations at December 31, 2011.

Fair Value – Bancorp applies the hierarchy and framework for measuring fair value, and expanded 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 principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Company's financial instruments fall within Levels 2 and 3.

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

Recently Issued Accounting Pronouncements Adopted in 2011 – In July 2010, FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The objective of this update is to provide greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables.

In January 2010 FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures*, *Improving Disclosures about Fair Value Measurements.* The objective of this statement was to increase the transparency in financial reporting of *Fair Value Measurement.*

There was no material impact on the Bank's results of operations or financial condition upon adoption of the new standards.

Recently Issued Accounting Pronouncements Effective in 2012 and 2013 – In April 2011 FASB issued Accounting Standard Update No. ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU sets forth the guidance to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment and for disclosure of troubled debt restructurings. . This update is effective for the Bank for the year ended December 31, 2012.

In April2011 FASB issued Accounting Standard Update No. ASU 2011-03, *Transfer and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.* This ASU removes from the assessment of effective control in the accounting for repurchase agreements (a) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (b) the collateral maintenance implementation guidance related to that criterion. . This update is effective for the Bank for the year ended December 31, 2012.

In May 2011 FASB issued Accounting Standard Update No. ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU supersedes most of the guidance in Topic 820, although many of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. In addition, certain amendments in ASU 2011-04 change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. This update is effective for the Bank for the year ended December 31, 2012.

1. Summary of Significant Accounting Policies, Continued:

In June 2011 FASB issued Accounting Standard Update No. ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* This ASU requires all non owner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update is effective for the Bank for the year ended December 31, 2012.

In December 2011 FASB issued Accounting Standard Update No. ASU 2011-115 *Disclosures about Offsetting Assets and Liabilities Balance Sheet (Topic 210)*. Offsetting (netting) assets and liabilities is an important aspect of presentation in financial statements. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. This update is effective for the Bank for the year ended December 31, 2013.

The Bank is currently evaluating the impact that the amendments effective in 2012 will have on its future financial statements.

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, 2011 and 2010 were approximately $354,000 and $259,000, respectively, and were 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, 2011 and 2010 are as follows:

2011

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	**$ 10,099,177**	**$ 194,025**	**$ (21,950)**	**$ 10,271,252**
Government guaranteed loan pools	**6,355,417**	**263,841**	**(460)**	**6,618,798**
Mortgage-backed securities	**1,169,208**	**74,843**	**-**	**1,244,051**
Obligations of municipal entities	**3,865,909**	**131,713**	**-**	**3,997,622**
	$ 21,489,711	**$ 664,422**	**$ (22,410)**	**$ 22,131,723**

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of municipal entities	**$ 5,490,300**	**$ -**	**$ (88,817)**	**$ 5,401,483**
	$ 5,490,300	**$ -**	**$ (88,817)**	**$ 5,401,483**

2010

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	$ 11,486,122	$ 277,947	$ (92,459)	$ 11,671,610
Government guaranteed loan pools	7,526,406	53,116	(26,344)	7,553,178
Mortgage-backed securities	2,123,637	113,068	-	2,236,705
Obligations of municipal entities	4,364,938	52,837	(151,244)	4,266,531
	$ 25,501,103	$ 496,968	$ (270,047)	$ 25,728,024

3. **Investment Securities,** Continued:

Investment securities that were in unrealized loss positions as of December 31, 2011 and 2010 are presented in the following tables, based on the length of time that individual securities were in unrealized loss positions.

Securities in Unrealized Loss Positions as of December 31, 2011

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies	**$ 5,977,090**	**$ (21,950)**	**$ -**	**$ -**	**$ 5,977,090**	**$ (21,950)**
Government guaranteed loan pools	**148,464**	**(20)**	**60,596**	**(440)**	**209,060**	**(460)**
Total	**$ 6,125,554**	**$ (21,970)**	**$ 60,596**	**$ (440)**	**$ 6,186,150**	**$ (22,410)**

Securities in Unrealized Loss Positions as of December 31, 2010

	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	$ 6,909,845	$ (92,458)	$ -	$ -	$ 6,909,845	$ (92,458)
Government guaranteed loan pools	1,507,439	(23,535)	1,083,742	(2,808)	2,591,181	(26,343)
Obligations of municipal entities	1,103,642	(51,299)	1,095,974	(99,946)	2,199,616	(151,245)
Total	$ 9,520,926	$ (167,292)	$ 2,179,716	$ (102,754)	$ 11,700,642	$ (270,046)

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.

3. Investment Securities, Continued:

The amortized cost and estimated fair value of investment securities at December 31, 2011 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	$ 2,490,407	$ 2,518,500	$ -	$ -
Due after one year through five years	3,532,832	3,715,713	-	-
Due after five years	14,297,264	14,653,459	5,490,300	5,401,483
Mortgage-backed securities	1,169,208	1,244,051	-	-
	$ 21,489,711	$ 22,131,723	$ 5,490,300	$ 5,401,483

Proceeds from the sale of securities during 2011 were $306,747. During 2010 the Bank sold available-for-sale securities to provide funds to support loan growth and pay down FHLB debt. Total proceeds from the sales were $12,214,797 in 2010.

At December 31, 2011, investment securities with amortized costs of $10,428,127 and estimated fair values of $10,822,210 were pledged for public deposits ($14,744,673 and $14,918,590 in 2010, respectively).

4. Loans:

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

	2011	2010
Farmland Loans	**$ 56,049,401**	$ 51,255,134
Commercial real estate loans	**41,673,090**	39,932,677
Agriculture loans	**39,917,626**	40,190,019
Government guaranteed loans	**20,647,466**	16,227,087
Commercial loans	**17,348,173**	17,151,806
Real estate loans	**16,239,673**	18,893,092
Municipal loans	**7,681,478**	8,206,301
Consumer loans	**3,373,126**	3,471,951
	202,930,033	195,328,067
Deferred loan origination fees	**(432,027)**	(540,402)
	202,498,006	194,787,665
Allowance for loan losses	**(2,590,728)**	(2,975,802)
	$ 199,907,278	$ 191,811,863

The loan portfolio at December 31, 2011 and 2010 includes $156,690,116 and $145,927,354, respectively, of loans which have a variable rate of interest. The December 31, 2011 amount includes $139,400,674 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 $6,329,507 and $7,757,912 at December 31, 2011 and 2010, 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:

	Recorded Investment Nonaccrual Loans	Unpaid Principal Nonaccrual Loans	Loans Past Due 90 Days or More and Still Accruing	Renegotiated Loans
2011				
Farmland	**$ 709,660**	**$ 714,684**	**$ -**	**$ -**
Commercial real estate	**949,329**	**1,785,580**	**-**	**-**
Agriculture	**62,345**	**62,345**	**-**	**-**
Government Guaranteed	**-**	**-**	**974,495**	**-**
Commercial	**36,969**	**36,969**	**-**	**-**
Real estate	**298,621**	**442,894**	**-**	**-**
	$ 2,056,924	**$ 3,042,472**	**$ 974,495**	**$ -**
2010				
Farmland	$ 221,846	$ 222,677	$ -	$ -
Commercial real estate	2,215,531	5,251,452	-	1,551,042
Agriculture	21,918	21,918	-	-
Commercial	38,255	38,269	-	-
Real estate	-	-	-	343,181
Consumer	500	4,878	-	-
	$ 2,498,050	$ 5,539,194	$ -	$ 1,894,223

4. **Loans,** Continued:

The following is an analysis of impaired loans as of December 31, 2011:

	Impaired Loans With Allowance			Impaired Loans without Allowance		Total Impaired Loans	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Farmland	$ -	$ -	$ -	$2,916,895	$ 2,929,701	$ 2,916,895	$ 2,929,701
Commercial real estate	617,400	617,400	87,112	4,309,422	5,368,619	4,926,822	5,986,019
Agriculture	484,233	486,648	197,883	56,502	56,502	540,735	543,150
Commercial	-	-	-	1,238,800	1,239,706	1,238,800	1,239,706
Real estate	361,178	361,178	25,000	343,167	487,919	704,345	849,097
	$1,462,811	$1,465,226	$ 309,995	$8,864,786	$10,082,447	$10,327,597	$11,547,673

Restructured and other loans considered impaired, including all non-accrual loans, totaled $7,220,345 at December 31, 2010, and the specific valuation allowance for loan losses related to these impaired loans was $284,013. The average recorded investment in impaired loans was approximately $10,821,344 and $8,449,938 in 2011 and 2010, respectively. Interest income recognized on impaired loans totaled $602,437 and $395,438 in 2011 and 2010, respectively. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was approximately $178,905 and $286,831 in 2011 and 2010, respectively.

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 2011 or 2010. 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.

5. Allowance for Loan Losses, Continued:

These Loan risk ratings are assigned as follows:

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

A detailed analysis of the ALLL by major portfolio segment as of December 31, 2011:

			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	3.17	$ 55,823,441	$ 338,320	$ 277,477	$ 210,000	$ 270,843	$ -	$ 270,843
Commercial real estate loans	3.52	41,571,988	1,903,728	1,291,403	855,000	1,467,325	87,112	1,380,213
Agriculture loans	3.24	39,909,492	215,703	-	150,000	365,703	197,883	167,820
Government guaranteed loans	1.70	20,647,466	16,226	-	1,000	17,226	-	17,226
Commercial loans	3.00	17,327,938	149,167	(18,908)	1,500	169,575	-	169,575
Real estate loans	3.31	16,204,974	269,510	161,499	105,000	213,011	25,000	188,011
Municipal loans	2.68	7,640,013	23,560	-	1,500	25,060	-	25,060
Consumer loans	3.18	3,372,694	59,588	(1,397)	1,000	61,985	-	61,985
Total		$202,498,006	$2,975,802	$1,710,074	$1,325,000	$2,590,728	$309,995	$2,280,733

A summary of the activity in the ALLL for the year ended December 31, 2010 is as follows:

Balance, beginning of year	$ 3,433,734
Loans charged off	(1,743,091)
Provision charged to income	1,265,000
Recoveries credited to allowance	20,159
Balance, end of year	$ 2,975,802

6. Property:

Property at December 31 consists of the following:

	2011	2010
Land	**$ 762,238**	$ 762,238
Buildings and improvements	**7,298,513**	7,321,410
Furniture and equipment	**3,661,942**	3,393,217
	11,722,693	11,476,865
Accumulated depreciation	**4,820,841**	4,473,062
	$ 6,901,852	$ 7,003,803

7. Core Deposit Intangible:

The core deposit intangible and accumulated amortization balances are:

	2011	2010
Purchase cost in 2003	**$ 2,109,512**	$ 2,109,512
Accumulated amortization	**1,830,079**	1,668,905
	$ 279,433	$ 440,607

Forecasted amortization for the next two years, after which it will be fully amortized, is as follows:

2012	148,166
2013	131,267

8. Other Assets:

	2011	2010
Cash value of life insurance (Note 13)	**$ 4,151,781**	$ 3,981,931
Foreclosed assets	**1,471,800**	983,951
Prepaid expenses	**1,203,766**	1,640,214
Investment in unconsolidated subsidiaries (Trusts) (Note 11)	**217,000**	217,000
Income tax deposits	**94,377**	107,936
Capitalized subordinated debt issuance costs, net of $140,000 and $130,000 amortization in 2011 and 2010, respectively	**30,000**	40,000
Other items, net	**11,552**	9,038
	$ 7,180,276	$ 6,980,070

9. Deposits:

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

	2011	2010
Less than one year	**$ 45,526,209**	$ 58,090,997
One to three years	**9,315,869**	6,499,547
Over three years	**3,171,537**	3,004,579
	$ 58,013,615	$ 67,595,123

10. Borrowings:

At December 31, 2011, the Bank has unused credit available totaling approximately $34,337,000 from the Federal Home Loan Bank of Seattle, $20,000,000 of federal funds lines with correspondent banks and $5,000,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2011 or December 31, 2010.

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, 2011, 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 on or after the above noted optional redemption dates.

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, 2011 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 the consolidated balance sheets.

In December 2009 and March 2010 Bancorp issued a total of $4,105,000 in 7% 5-year Callable Convertible Subordinated Notes ("Notes") in a private offering with the primary purpose of providing capital to the Bank. The Notes are callable by Bancorp or convertible by the investors into common shares. The Notes rank senior in right of repayment to the Debentures described above. Interest is payable quarterly and may be deferred at Bancorp's option. Subsequent to December 31, 2011, Bancorp called $1,026,250 of the Notes (see Note 21).

A summary of the terms of all subordinated debentures totaling $11,322,000 is as follows:

	BEO Trust I	BEO Trust II	Callable-Convertible Subordinated Notes
Amount outstanding	$4,124,000	$3,093,000	$4,105,000
Date of original issue	December 17, 2003	March 17, 2005	Dec. 2009 to Mar. 2010
Stated maturity	December 17, 2033	March 17, 2035	December 28, 2016
Optional redemption	Began December 2008	Began March 2010	Began December 2011
Interest rate	LIBOR plus 2.85% (3.41% at 12/31/2011)	LIBOR plus 1.90% (2.46% at 12/31/2011)	7%
Conversion price	N/A	N/A	$8.70 per share

12. Interest Expense:

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

	2011	2010
Savings and interest-bearing demand	**$ 282,201**	$ 459,077
Time deposits in excess of $100,000	**307,806**	555,563
Other time deposits	**474,227**	636,547
Interest expense on deposits	**1,064,234**	1,651,187
Subordinated debentures (Note 11)	**484,227**	503,958
Short-term borrowings	**347**	97,843
Total interest expense	**$ 1,548,808**	$ 2,252,988

13. Benefit Plans:

The Bank has a 401(k) 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 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 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 $262,567 and $260,023 in 2011 and 2010, respectively. During 2011 and 2010 the plan purchased 4,400 and 31,298 shares of BEO Bancorp stock from Bancorp and others at a cumulative purchase price of $49,273 and $306,341, respectively. At December 31, 2011 the plan held 56,479 Bancorp shares, all of which were allocated to participants

The Bank is beneficiary of bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. At December 31, 2011 and 2010, the Bank recorded a salary continuation benefit obligation of $668,274 and $650,859, respectively. During 2011 and 2010 $72,471 and $72,471 was paid in benefits and the amount of expense charged to income was $89,886 and $48,307, respectively. The cash surrender value of BOLI was $4,151,781 at December 31, 2011 and $3,981,931 at December 31, 2010, and is included in other assets (Note 8).

14. Income Taxes:

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

	2011	2010
Currently payable (refundable):		
Federal	**$ 301,000**	$ 473,258
State	**15,000**	14,742
	316,000	488,000
Deferred:		
Federal	**270,000**	167,000
State	**60,000**	42,000
	330,000	209,000
	$ 646,000	$ 697,000

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:

	2011	2010
Tax on income at federal statutory rate (34%)	**$ 903,573**	$ 800,026
State income tax, net of federal benefit	**9,900**	118,000
Nontaxable interest income, net of allocable interest expense	**(207,951)**	(303,284)
Other, net	**(59,522)**	82,258
	$ 646,000	$ 697,000

14. Income Taxes, Continued:

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 years ended December 31 are as follows:

	2011	2010
Deferred compensation not deducted for tax purposes	**$ (7,227)**	$ 8,048
Loan origination costs	**(2,773)**	5,434
Loan loss deduction for tax purposes more than provision for financial reporting purposes	**320,834**	316,800
Depreciation and amortization	**70,384**	(18,725)
Other, net	**(51,218)**	(102,557)
	$ 330,000	$ 209,000

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

	2011	2010
Assets:		
Allowance for loan losses	**$ 497,291**	$ 1,055,353
Deferred compensation	**276,941**	255,030
Excess book over tax depreciation, amortization and impairment charges	**3,589**	159,804
Foreclosed assets basis difference	**183,708**	78,394
Purchased Oregon tax credits - adjusted cost	**420,995**	118,584
Total deferred tax assets	**1,382,524**	1,667,165
Liabilities:		
Unrealized gain on investment securities available-for-sale	**218,284**	77,153
Loan origination costs	**99,541**	94,731
Prepaid expenses	**122,914**	83,408
Federal Home Loan Bank stock dividends	**33,763**	31,928
Total deferred tax liabilities	**474,502**	287,220
Net deferred tax assets	**$ 908,022**	$ 1,379,945

Bancorp has unused purchased Oregon energy tax credits of $420,995 as of December 31, 2011 expiring through 2016. Based on Bancorp'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.

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:

	2011	**2010**
Commitments to extend credit	**$ 41,126,653**	$ 36,543,280
Standby letters of credit and financial guarantees written	**870,500**	1,060,000

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 was as follows:

	2011	2010
Balance, January 1	**$ 1,651,953**	$ 1,689,011
Additions or renewals	**1,446,999**	1,614,907
Amounts collected or renewed	**(1,373,577)**	(1,651,965)
Balance, December 31	**$ 1,725,375**	$ 1,651,953

In addition, there were $1,100,624 and $937,364 in commitments to extend credit to directors and officers at December 31, 2011 and 2010, 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 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:

	2011		**2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 14,603,218**	**$ 14,603,218**	$ 15,423,217	$ 15,423,217
Securities	**27,622,023**	**27,533,206**	25,728,024	25,728,024
Loans, net of allowance for loan losses	**199,907,278**	**206,530,587**	191,811,863	193,848,888
Interest receivable	**2,474,995**	**2,474,995**	2,406,718	2,406,718
Federal Home Loan Bank stock	**559,700**	**559,700**	559,700	559,700
Financial liabilities:				
Deposits	**230,331,319**	**230,748,601**	223,570,220	224,217,366
Trust Preferred Securities	**7,217,000**	**4,605,569**	7,217,000	4,515,151
Convertible Debentures	**4,105,000**	**4,105,000**	4,105,000	4,105,000
Accrued interest payable	**100,225**	**100,225**	151,118	151,118

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. 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.

17. Fair Value Disclosures of Financial Instruments, Continued:

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.

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, 2011					
Recuring items:					
Investment securities available for sale	**$22,131,723**	**$ -**	**$22,131,723**	**$ -**	
Non-recurring items:					
Impaired loans net of reserves	**$ 2,712,579**	**$ -**	**$ -**	**$ 2,712,579**	**$ 902,067**
Foreclosed assets	**1,471,800**	**-**	**-**	**1,471,800**	**221,165**
Total assets measured at fair value on a non-recurring basis	**$ 4,184,379**	**$ -**	**$ -**	**$ 4,184,379**	
December 31, 2010					
Recuring items:					
Investment securities available for sale	$25,728,024	$ -	$25,728,024	$ -	
Non-recurring items:					
Impaired loans net of reserves	$ 4,088,824	$ -	$ -	$ 4,088,824	$ 927,226
Foreclosed assets	983,951	-	-	983,951	216,985
Total assets measured at fair value on a non-recurring basis	$ 5,072,775	$ -	$ -	$ 5,072,775	

17. Fair Value Disclosures of Financial Instruments, Continued

The fair value represents management's best estimates based on a range of methodologies and assumptions. For loans with doubt as to collectability and foreclosed assets 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. The value of collateral is also considered.

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

Fair Value Measurement Using Unobservable Inputs (Level III)

	Impaired loans net of reserves	Foreclosed assets	Total
Beginning balance 12/31/10	$ 4,088,824	$ 983,951	$ 5,072,775
Net unrealized losses	(902,067)	(222,058)	(1,124,125)
Net realized gains (losses)	-	(14,905)	(14,905)
Additions, net of collections and deletions	667,158	-	667,158
Transfers between Level III at fair value	(1,141,336)	1,141,336	-
Sales	-	(416,524)	(416,524)
Ending balance 12/31/11	$ 2,712,579	$ 1,471,800	$ 4,184,379

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, banks 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.

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, 2011, Bancorp and the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the FRB and FDIC categorized Bancorp and the Bank as well capitalized. To be categorized as well capitalized 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 from that date through March 12, 2012 that management believes have changed the institution's category.

18. Regulatory Matters, Continued:

Bancorp's and 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, 2011:						
Total capital (to risk-weighted assets)						
BEO Bancorp	**$ 26,662**	**12.85%**	**$ 16,600**	**8%**	**N/A**	**N/A**
Bank of Eastern Oregon	**30,365**	**14.63%**	**16,600**	**8%**	**20,750**	**10%**
Tier I capital (to risk-weighted assets)						
BEO Bancorp	**23,044**	**11.11%**	**8,300**	**4%**	**N/A**	**N/A**
Bank of Eastern Oregon	**27,771**	**13.38%**	**8,300**	**4%**	**12,450**	**6%**
Tier I capital (to leverage assets)						
BEO Bancorp	**23,044**	**8.82%**	**10,449**	**4%**	**N/A**	**N/A**
Bank of Eastern Oregon	**27,771**	**10.63%**	**10,449**	**4%**	**13,075**	**5%**
As of December 31, 2010:						
Total capital (to risk-weighted assets)						
BEO Bancorp	$ 24,574	12.19%	$ 16,125	8%	N/A	N/A
Bank of Eastern Oregon	28,200	13.99%	16,125	8%	$ 20,156	10%
Tier I capital (to risk-weighted assets)						
BEO Bancorp	20,707	10.27%	8,063	4%	N/A	N/A
Bank of Eastern Oregon	25,674	12.73%	8,063	4%	12,094	6%
Tier I capital (to leverage assets)						
BEO Bancorp	20,707	8.19%	10,095	4%	N/A	N/A
Bank of Eastern Oregon	25,674	10.17%	10,095	4%	12,618	5%

19. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2011	**2010**
Assets:		
Cash, deposited with the Bank	**$ 164,573**	$ 445,320
Investments in:		
Bank subsidiary	**28,472,914**	26,264,420
Nonbank subsidiaries (Trusts)	**217,000**	217,000
Subordinated debt issuance costs, net of amortization	**30,000**	40,000
	$ 28,884,487	$ 26,966,740
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	**$ 8,171**	$ 7,103
Subordinated debt	**11,322,000**	11,322,000
Total liabilities	**11,330,171**	11,329,103
Stockholders' equity:		
Common stock	**2,408,945**	2,408,945
Surplus	**1,690,193**	1,690,193
Retained earnings and accumulated other comprehensive income	**13,455,178**	11,538,499
Total stockholders' equity	**17,554,316**	15,637,637
Total liabilities and stockholders' equity	**$ 28,884,487**	$ 26,966,740

19. Parent Company Financial Information, Continued:

STATEMENTS OF INCOME

	Year Ended December 31	
	2011	**2010**
Cash dividends from Bank	**$ 368,847**	$ 184,424
Less:		
Interest expense	**(484,227)**	(503,959)
Professional fees and administrative expenses	**(86,587)**	(114,389)
Amortization of subordinated debt issuance costs	**(10,000)**	(10,000)
Income (loss) before equity in undistributed earnings of the Bank	**(211,967)**	(443,924)
Equity in undistributed earnings of Bank	**1,934,534**	1,899,940
Credit for income taxes	**289,000**	200,000
Net income	**$2,011,567**	$ 1,656,016

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2011	**2010**
Operating activities:		
Net income	**$2,011,567**	$ 1,656,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	**(1,934,534)**	(1,899,940)
Amortization of subordinated debt issuance costs	**10,000**	10,000
Change in other assets and liabilities	**1,068**	(54,618)
Net cash used by operating activities	**88,101**	(288,542)
Investing activities:		
Investment in subsidiaries	**-**	(855,576)
Financing activities:		
Proceeds from issuance of subordinated debt	**-**	1,375,000
Issuance of Common Stock	**-**	203,760
Dividends paid	**(368,848)**	(184,424)
Net cash provided by financing activities	**(368,848)**	1,394,336
Net increase (decrease) in cash	**(280,747)**	250,218
Cash, beginning of year	**445,320**	195,102
Cash, end of year	**$ 164,573**	$ 445,320

20. Earnings Per Share:

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

The reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows for the fiscal years ended December 31:

	2011	2010
Numerator:		
Net earnings	**$ 2,011,567**	$ 1,656,016
Adjustment for interest expense on convertible notes, net of tax effect	**5,196**	-
Net earnings, adjusted	**$ 2,016,763**	$ 1,656,016
Denominator:		
Basic weighted average shares	**922,118**	922,118
Dilution for convertible notes	**1,467**	-
Diluted weighted average shares	**923,585**	922,118
Basic EPS	**$2.18**	$1.80
Diluted EPS	**$2.18**	$1.80

21. Subsequent Event:

Bancorp called $1,026,250 of the $4,105,000 Callable Convertible Subordinated Notes (Note 11) on February 15, 2012. Upon notification of the call, all investors exercised their option to convert to common stock as provided by the agreement. Of the 120,296 new shares issued, Bancorp repurchased 69,864 with the intent to retire them.