BEO Bancorp and Subsidiary

Consolidated Financial Statements

With Independent Auditor's Report

Years Ended December 31, 2015 and 2014

C O N T E N T S

BEO BANCORP

P.O. BOX 39 Heppner, OR 97836 Administrative Office: 279 N. Main Heppner, OR 97836 Phone: (541) 676-0201

Message to our stockholders

I am pleased to present to you the financial statements and operating results of BEO Bancorp and Bank of Eastern Oregon for 2015.

2015 was an interesting year for your Bank. During the first quarter we finalized the acquisition of Bank Reale. This marked our first move outside of the state of Oregon. This acquisition was strategic in nature and by all metrics has surpassed management and the board's expectations for year one. We also expanded our footprint within Oregon through a new loan production office in Madras.

Along with the expansion your Bank experienced record high net income levels in 2015. Consolidated after-tax net income for BEO Bancorp was $3,017,000, up 24.7% from 2014. Strong profitability was fueled primarily by two factors: 1) Net interest income being up 15.4% year over year and 2) Provision for possible loan losses dropping 44.3% from 2014 levels. Return on Average Assets (ROAA) for 2015 was 0.86% compared to 0.77% in 2014. Return on Average Equity is at 11.43% compared to 10.10% in 2014. Net earnings per share were $2.46 in 2015 compared to $2.09 in 2014. The ROAA represents an 11.7% increase year over year, while ROE is a 13.2% increase, and earnings per share increased 17.7%.

Your Bank continues to experience managed growth. Stockholders' equity grew from $24.95 million in 2014 to $27.85 million in 2015, an increase of 11.6%. Total assets were at $357.3 million, up 9.6% year over year. Deposits set another all-time high of $317.7 million, up 8.8% from 2014. Net loans increased 13.2% to $283.5 million, also a high point for your Bank. I have said it before and I will say it again…I see these factors as being indicative of the trust and loyalty that our customers place in your Bank. This trust does not happen by accident. We have a talented and experienced team of bankers that strive daily to meet and exceed the expectations of our customers. I thank them for their efforts.

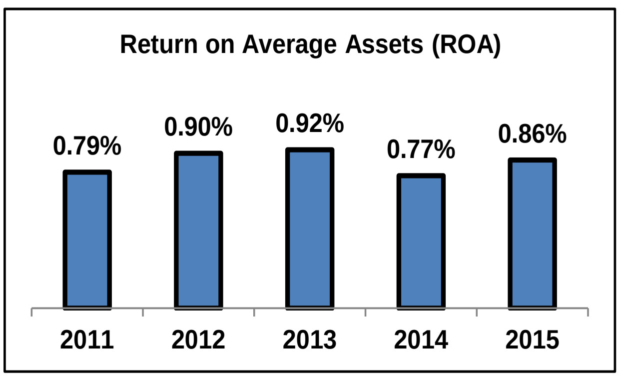
As shareholders, thank you for your continued investment and confidence in BEO Bancorp. I cordially invite you to attend our annual meeting of shareholders. We will provide a recap of 2015, elect a director, and offer a glimpse at what we expect in 2016. We will meet **Tuesday, April 26, 2016 at 7:00 pm** at the St. Patrick's Catholic parish hall at 560 N. Jones Street in Heppner, OR. I hope to see you there.

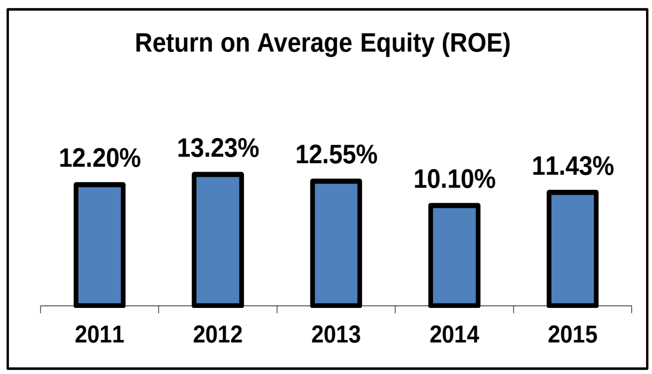
Sincerely,

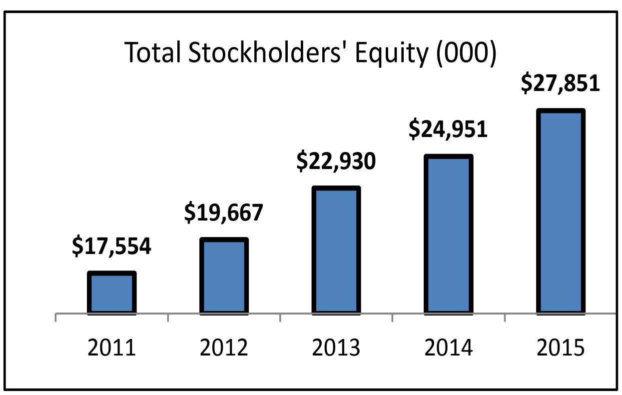
Jeff L. Bailey
President and CEO
BEO Bancorp

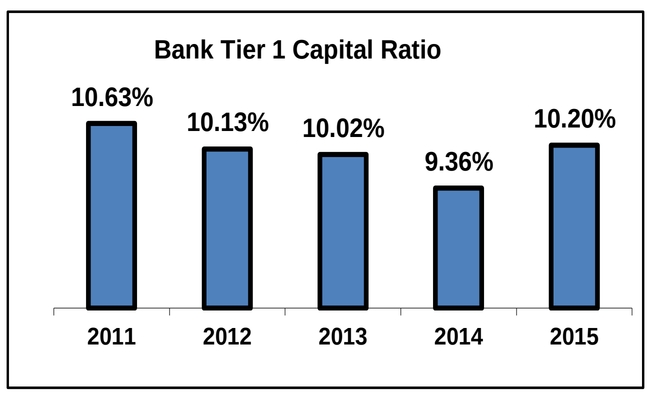
FINANCIAL HIGHLIGHTS
2011-2015

	2011	2012	2013	2014	2015
Return on Average Assets	0.79%	0.90%	0.92%	0.77%	0.86%
Return on Average Equity	12.20%	13.23%	12.55%	10.10%	11.43%
Net Income	$2,011,567	$2,461,996	$2,673,600	$2,418,590	$3,016,534
Net Income Per Share	$2.18	$2.55	$2.54	$2.09	$2.46
Total Equity (000)	$17,554	$19,667	$22,930	$24,951	$27,851
Total Assets (000)	$260,437	$284,848	$299,084	$325,898	$357,258
Bank Tier 1 Capital Ratio	10.63%	10.13%	10.02%	9.36%	10.20%









Board of Directors:

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

Bank Officers:

Executive Team

Jeff Bailey, President and CEO
Mark Lemmon, Executive Vice President, CFO
Gary Propheter, Executive Vice President, COO

Senior Vice Presidents:

Becky Kindle, SVP Operations
John Qualls, SVP Senior Loan Officer
Ed Rollins, SVP Credit Administrator

Vice Presidents:

John Bailey, Loan Officer
James Gardner, Loan Officer
Jill Parker, Loan Officer
Robert Quinton, Loan Officer
Russell Seewald, Loan Officer
Robert Williams, Loan Officer
Janet Dezellem, Controller
Tricia Gunderson, HR Manager
Kristy Perry, Loan Officer
Kevin Sakamoto, Loan Officer
Mike Short, Loan Officer

Assistant Vice Presidents:

Christy Correa, Finance Coordinator
Dawna Dougherty, Compliance Officer
Justin Miller, Loan Officer
Janice Provencher, Branch Manager
Jennifer Smith, Branch Manager
Karen Cossitt, Branch Manager
Lucy Gonzalez, Branch Manager
Anita Orem, Operations Support Mgr.
Rhonda Shaffer, Loan Officer

Lenders and Managers

Mike Allen, Loan Officer
Jim Bleth, IT Manager
Kathy Burres, Branch Manager
Julie Gisi, Branch Manager
Laura Isaacson, Loan Officer
Pete McCabe, Loan Officer
Sherrie Modey, Branch Manager
Jed Myers, Loan Officer
Cori Price, Loan Officer
Tricia Rollins, Branch Manager
Arletta Arnspiger, Mortgage Loan Officer
Nial Bradshaw, Loan Officer
Jolene Cox, Branch Manager
Tristan Henke, Loan Officer
Susan Jones, Branch Manager
Citlali Mendoza, Branch Manager
Andrea Moles, Branch Manager
Joe Perry, Mortgage Manager, Loan Officer
Sharon Rietmann, Branch Manager

ISLER CPA
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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Independent Auditors' Report

To the Board of Directors
BEO Bancorp:

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of BEO Bancorp and Subsidiary ("BEO") which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, profit and other comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BEO as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Isler CPA, LLC

March 14, 2016

BEO Bancorp and Subsidiary
Consolidated Balance Sheets

	December 31	
	2015	**2014**
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	**$ 6,444,046**	$ 7,509,405
Interest bearing deposits at other financial institutions	**24,775,647**	33,475,204
Total cash and cash equivalents	**31,219,693**	40,984,609
Investment securities available-for-sale	**18,137,046**	13,108,009
Investment securities held-to-maturity	**3,802,071**	4,250,462
Loans, less allowance for loan losses	**283,528,762**	250,382,990
Interest receivable	**3,062,623**	3,069,856
Federal Home Loan Bank stock	**390,800**	509,800
Property, less accumulated depreciation	**9,165,726**	7,326,769
Deferred taxes, net	**1,177,293**	706,363
Foreclosed assets	**1,059,250**	328,310
Cash surrender value of bank owned life insurance	**4,679,991**	4,560,336
Other assets	**1,034,830**	670,082
	326,038,392	284,912,977
Total assets	**$ 357,258,085**	$ 325,897,586
LIABILITIES and STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 80,886,186**	$ 75,158,049
Savings and interest-bearing demand	**187,020,344**	167,035,941
Time, $100,000 and over	**15,941,646**	12,572,229
Other time	**33,811,613**	37,066,553
	317,659,789	**291,832,772**
Subordinated debentures	**9,067,000**	7,217,000
Interest payable	**91,427**	56,404
Other liabilities	**2,588,594**	1,840,627
Total liabilities	**329,406,810**	300,946,803
Stockholders' equity:		
Common stock, $2.50 par value, 3,000,000 shares authorized 1,226,581 outstanding December 31, 2015, 1,193,849 outstanding December 31, 2014	**3,066,453**	2,984,623
Additional paid-in capital	**4,209,520**	3,408,712
Retained earnings	**20,950,344**	18,786,642
Treasury stock at cost, 9,796 shares outstanding	**(219,710)**	(156,228)
Accumulated other comprehensive income (loss)	**(155,332)**	(72,966)
Total stockholders' equity	**27,851,275**	24,950,783
Total liabilities and stockholders' equity	**$ 357,258,085**	$ 325,897,586

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

BEO Bancorp and Subsidiary
Consolidated Statements of Income

	Year Ended December 31	
	2015	**2014**
Interest income:		
Interest and fees on loans:		
Taxable	**$ 16,764,732**	$ 14,403,688
Nontaxable	**284,452**	299,230
Interest on investment securities:		
Taxable	**197,357**	197,329
Nontaxable	**221,007**	245,847
Interest on federal funds sold and short-term time deposits	**79,331**	46,249
	17,546,879	15,192,343
Interest expense	**1,171,218**	997,442
Net interest income	**16,375,661**	14,194,901
Provision for loan losses	**724,000**	1,300,000
Net interest income after provision for loan losses	**15,651,661**	12,894,901
Noninterest income:		
Service charges	**1,836,799**	1,730,189
Mortgage banking income	**208,259**	253,322
Other	**279,824**	150,669
	2,324,882	2,134,180
Noninterest expense:		
Salaries and employee benefits	**7,788,343**	7,006,945
Occupancy expense	**802,116**	658,153
Equipment expense	**1,303,441**	985,072
Foreclosed asset expenses	**61,590**	51,659
Other	**3,590,519**	2,901,662
	13,546,009	11,603,491
Income before income taxes	**4,430,534**	3,425,590
Provision for income taxes	**1,414,000**	1,007,000
Net income	**$ 3,016,534**	$ 2,418,590
Basic earnings per share	**$ 2.46**	$ 2.09

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

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

	Year Ended December 31	
	2015	**2014**
Net Income	**$ 3,016,534**	$ 2,418,590
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities	**(32,879)**	122,508
Unrealized gain (loss) on cash flow hedge instrument	**(49,487)**	(546,931)
Other comprehensive income (loss)	**(82,366)**	(424,423)
Comprehensive Income	**$ 2,934,168**	$ 1,994,167

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, 2015 and 2014

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2014	$ 2,727,388	$ 2,770,769	$ 17,080,745	$ 351,457	-	$22,930,359
Issuance of 102,894 shares	257,235	637,943				895,178
Net income			2,418,590			2,418,590
Other comprehensive income (loss):				(424,423)		(424,423)
Purchase of 6,528 shares of treasury stock					(156,228)	(156,228)
Cash dividends ($.60 per share)			(712,693)			(712,693)
Balance, December 31, 2014	2,984,623	3,408,712	18,786,642	(72,966)	(156,228)	24,950,783
Issuance of 57,140 shares	**142,850**	**1,316,836**				**1,459,686**
Net income			**3,016,534**			**3,016,534**
Other comprehensive income (loss):				**(82,366)**		**(82,366)**
Purchase of 27,676 shares of treasury stock					**(640,530)**	**(640,530)**
Retirement of 24,408 shares of treasury stock	**(61,020)**	**(516,028)**			**577,048**	**-**
Cash dividends ($.70 per share)			**(852,832)**			**(852,832)**
Balance, December 31, 2015	**$ 3,066,453**	**$ 4,209,520**	**$ 20,950,344**	**$ (155,332)**	**$ (219,710)**	**$27,851,275**

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	
	2015	**2014**
Cash flows from operating activities:		
Net income	**$ 3,016,534**	$ 2,418,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**651,369**	538,591
Net gains or losses on property dispositions	**67,198**	10,968
Amortization of investment premiums, net	**67,682**	76,693
Amortization of core deposit intangible	**4,878**	-
Provision for loan losses	**724,000**	1,300,000
Write down of foreclosed assets	**25,852**	22,825
Increase in cash value of life insurance	**(119,655)**	(127,024)
Deferred income taxes	**230,000**	293,000
Change in:		
Interest receivable and other assets	**(362,797)**	(189,459)
Deferred loan fees	**(79,075)**	5,270
Accrued interest and other liabilities	**700,512**	(963,331)
Net cash provided by operating activities	**4,926,498**	3,386,123
Cash flows from investing activities:		
Proceeds from maturities of investment securities	**7,401,689**	8,308,798
Purchase of investment securities	**(12,099,834)**	(6,244,695)
Purchase of loans	**(26,616,798)**	-
Purchase of NOL carryforward	**(650,597)**	-
Proceeds from sale of foreclosed assets	**235,326**	281,175
Proceeds from sale of FHLB stock	**119,000**	20,500
Loans originated, net of principal collected	**(8,233,149)**	(12,386,401)
Purchases of property	**(2,490,392)**	(1,156,117)
Net cash provided (used) in investing activities	**(42,334,755)**	(11,176,740)
Cash flows from financing activities:		
Net increase in deposits	**25,827,017**	26,881,083
Increase (Decrease) in subordinated debt	**1,850,000**	(1,473,750)
Issuance of common stock	**1,459,686**	895,178
Repurchase of common stock	**(640,530)**	(156,228)
Dividends paid	**(852,832)**	(712,693)
Net cash provided by financing activities	**27,643,341**	25,433,590
Net increase (decrease) in cash and cash equivalents	**(9,764,916)**	17,642,973
Cash and cash equivalents, beginning of year	**40,984,609**	23,341,636
Cash and cash equivalents, end of year	**$ 31,219,693**	$ 40,984,609

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	
	2015	**2014**
Supplemental information:		
Cash paid during the year for:		
Income taxes	**$ 1,140,000**	$ 1,540,000
Interest	**1,136,195**	1,013,000
Transfer of loans to foreclosed assets	**1,059,250**	521,443

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.

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 13, 2016, the date the financial statements are available for distribution. Certain prior year amounts may have been reclassified to conform to the current year presentation. Such reclassifications have no effect on previously reported net income.

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 Bank had no trading securities at December 31, 2015 or 2014.

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 320. Accordingly, the Bank assesses whether it intends to sell, or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized cost basis, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the income statement, but is recognized in other comprehensive income. The Bank has not recognized an other-than-temporary impairment of its debt securities as management believes all unrealized losses on investment securities at December 31, 2015 are temporary (see note 3).

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 collectability of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectability of loans and prior loss experience. The evaluations take into consideration such factors as changes in the nature and value of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

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

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

Federal Home Loan Bank Stock – The investment in Federal Home Loan Bank ("FHLB") stock is a restricted investment carried at cost, which is based on the ultimate recoverability at par value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on borrowings. At December 31, 2015, the minimum required investment was $390,800. 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 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, de-recognition, 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, 2015. Tax returns for years subsequent to 2011 remain open to examination by these taxing jurisdictions.

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

1. Summary of Significant Accounting Policies, Continued:

Derivative Instruments – Bancorp and the Bank use a derivative financial instrument (interest rate swaps) to limit exposure to changes in interest rates related to a subordinated debenture. The derivatives entered into by Bancorp and the Bank are designated as cash flow hedge with perfect effectiveness between changes in the value of the interest rate swap and the hedged instrument (subordinated debenture liability). The derivative and related hedged debenture are recognized in the balance sheet at their fair value. Bancorp and the Bank formally documents all relationships between hedging instruments and formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in fair values of hedged items.

Bancorp and the Bank would discontinue hedge accounting when: (a) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged item; (b) the derivative expires or is sold, terminated, or exercised; or (c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The hedged liability would no longer be adjusted for changes in fair value and the derivative would be carried at its fair value in the balance sheet, with changes in its fair value recognized in current-period earnings.

Recently Issued Accounting Pronouncements Adopted in 2015:

FASB Accounting Standard Update No. ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* These amendments provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This update is effective for the Bank for the year ended December 31, 2015.

FASB Accounting Standard Update No. ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350)—Accounting for Goodwill.* " These amendments permit a private company to subsequently amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. Under the goodwill accounting alternative, goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of a company (or a reporting unit) may be below its carrying amount. A private company that elects the accounting alternative is further required to make

1. Summary of Significant Accounting Policies, Continued:

an accounting policy election to test goodwill for impairment at either the company level or the reporting unit level. This update is effective for the Bank for the year ended December 31, 2015.

FASB Accounting Standard Update No. ASU 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40)—Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* These amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon certain conditions This update is effective for the Bank for the year ended December 31, 2015.

Recently Issued Accounting Pronouncements Effective in 2015 and subsequent years:

FASB Accounting Standard Update No. ASU 2014-11, *Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure.* The amendments in ASU 2014-11 align the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. ASU 2014-11 also brings U.S. GAAP into greater alignment with IFRS for repurchase-to-maturity transactions.

The amendments in the ASU require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The amendments in the ASU also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The amendments in ASU 2014-14 affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. It requires that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met:

1. Summary of Significant Accounting Policies, Continued:

1. The loan has a government guarantee that is not separable from the loan before foreclosure.

2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim.

3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2015-1 *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* The amendments in ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item.

If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2015-1 *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This update is effective for the Bank for the year ended December 31, 2016.

FASB Accounting Standard Update No. ASU 2015 – 5 Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in ASU 2015-05 provide guidance to customers

1. Summary of Significant Accounting Policies, Continued:

about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. This update is effective for the Bank for the year ended December 31, 2016.

The Bank is evaluating the impact that these amendments have on 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, 2015 and 2014 were approximately $6,434,000 and $6,047,000, 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, 2015 and 2014 are as follows:

2015

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	**$ 9,696,124**	**$ 33,534**	**$ (27,788)**	**$ 9,701,870**
Government guaranteed loan pools	**4,898,205**	**118,033**	**(11,803)**	**5,004,435**
Mortgage-backed securities	**1,090,324**	**2,787**	**(10,648)**	**1,082,463**
Obligations of municipal entities	**2,295,024**	**53,254**	**-**	**2,348,278**
	$ 17,979,677	**$ 207,608**	**$ (50,239)**	**$ 18,137,046**

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of municipal entities	**$ 3,802,071**	**$ -**	**$ -**	**$ 3,802,071**
	$ 3,802,071	**$ -**	**$ -**	**$ 3,802,071**

2014

Available-for-sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government agencies	**$ 5,248,918**	**$ 26,017**	**$ (51,547)**	**$ 5,223,388**
Government guaranteed loan pools	**4,421,920**	**167,922**	**(6,255)**	**4,583,587**
Mortgage-backed securities	**695,054**	**826**	**(4,261)**	**691,619**
Obligations of municipal entities	**2,534,931**	**74,484**	**-**	**2,609,415**
	$ 12,900,823	$ 269,249	$ (62,063)	$ 13,108,009

Held-to-maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of municipal entities	**$ 4,250,462**	**$ -**	**$ -**	**$ 4,250,462**
	$ 4,250,462	$ -	$ -	$ 4,250,462

3. Investment Securities, Continued:

Investment securities that were in unrealized loss positions as of December 31, 2015 and 2014 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, 2015					
	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	$ 5,261,872	$ (14,559)	$ 236,772	$ (13,228)	$ 5,498,644	$ (27,787)
Mortgage-backed securities	241,535	(4,307)	569,884	(6,341)	811,419	(10,648)
Government guaranteed loan pools	1,483,997	(7,735)	451,025	(4,069)	1,935,022	(11,804)
Total	$ 6,987,404	$ (26,601)	$ 1,257,681	$ (23,638)	$ 8,245,085	$ (50,239)

	Securities in Unrealized Loss Positions as of December 31, 2014					
	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	$ 1,990,410	$ (4,143)	$ 1,202,596	$ (47,404)	$ 3,193,006	$ (51,547)
Mortgage-backed securities	-	-	678,117	(4,261)	678,117	(4,261)
Government guaranteed loan pools	184,577	(664)	556,970	(5,591)	741,547	(6,255)
Total	$ 2,174,987	$ (4,807)	$ 2,437,683	$ (57,256)	$ 4,612,670	$ (62,063)

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, 2015 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	$ 5,664,921	$ 5,666,728	$ 468,439	$ 468,439
Due after one year through five years	4,977,081	5,066,071	2,063,711	2,063,711
Due after five years	6,247,352	6,321,784	1,269,921	1,269,921
Mortgage-backed securities	1,090,323	1,082,463	-	-
	$ 17,979,677	$ 18,137,046	$ 3,802,071	$ 3,802,071

There were no sales of securities in 2015 or 2014.

At December 31, 2015, investment securities with amortized costs of $15,772,295 and estimated fair values of $15,933,361 were pledged for public deposits ($10,176,691 and $10,384,284 at December 31, 2014, respectively).

4. Loans:

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

	2015	2014
Farmland Loans	**$ 81,267,445**	$ 77,889,416
Commercial real estate loans	**66,148,522**	53,089,613
Agriculture loans	**47,905,037**	43,589,695
Government guaranteed loans	**21,158,781**	19,017,136
Commercial loans	**33,180,024**	29,792,241
Real estate loans	**26,360,350**	22,223,264
Municipal loans	**8,482,887**	6,529,527
Consumer loans	**3,456,266**	2,836,083
	287,959,312	254,966,975
Deferred loan origination fees	**(571,506)**	(650,581)
Purchased loans discount	**(650,192)**	-
	286,737,614	254,316,394
Allowance for loan losses	**(3,208,852)**	(3,933,404)
	$ 283,528,762	$ 250,382,990

The loan portfolio at December 31, 2015 and 2014 includes $228,305,044 and $205,353,195, respectively, of loans which have a variable rate of interest. The December 31, 2015 amount includes $195,277,105 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 $3,973,826 and $6,130,394 at December 31, 2015 and 2014, 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 are as follows:

	Recorded Investment Nonaccrual Loans	Unpaid Principal Nonaccrual Loans	Loans Past Due 90 Days or More and Still Accruing
2015			
Farmland	**$ 3,275,016**	**$ 3,275,016**	**$ -**
Commercial real estate	**2,344,966**	**2,445,467**	**-**
Agriculture	**979,770**	**2,441,701**	**-**
Commercial	**404,429**	**507,825**	**-**
Real estate	**609,508**	**855,483**	**-**
	$ 7,613,689	**$ 9,525,492**	**$ -**
2014			
Farmland	$ 4,456,396	$ 4,456,396	$ -
Commercial real estate	2,406,431	2,506,932	-
Agriculture	3,747,763	3,747,763	-
Commercial	694,503	797,899	-
Real estate	635,261	881,237	-
	$ 11,940,354	$ 12,390,227	$ -

4. Loans, Continued:

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

2015	**Impaired Loans**				
	With a Related Allowance	**Without a Related Allowance**	**Total Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
Farmland	**$3,275,016**	**$ -**	**$ 3,275,016**	**$ 3,482,699**	**$ 496,104**
Commercial real estate	**-**	**2,404,941**	**2,404,941**	**2,757,254**	**-**
Agriculture	**-**	**979,770**	**979,770**	**2,441,701**	**-**
Commercial	**-**	**404,429**	**404,429**	**1,058,080**	**-**
Real estate		**791,691**	**791,691**	**1,037,667**	**-**
	$3,275,016	**$4,580,831**	**$ 7,855,847**	**$10,777,401**	**$ 496,104**

2014	Impaired Loans				
	With a Related Allowance	Without a Related Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Allowance
Farmland	$3,275,016	$1,181,380	$ 4,456,396	$ 4,456,396	$ 421,544
Commercial real estate	-	2,470,989	2,470,989	2,571,490	-
Agriculture	3,744,125	3,638	3,747,763	3,747,763	1,528,050
Commercial	-	694,503	694,503	797,899	-
Real estate		830,789	830,789	1,076,765	-
	$7,019,141	$5,181,299	$12,200,440	$12,650,313	$1,949,594

The average recorded investment in impaired loans was approximately $9,045,000 and $13,367,000 in 2015 and 2014, respectively. Interest income recognized on impaired loans totaled $49,331 and $150,804 in 2015 and 2014, respectively. Interest income which would have been realized on non-accrual loans if they had remained current and still accruing was $636,538 and $652,880 in 2015 and 2014, respectively.

4. Loans, Continued:

There were no loans accounted for as Trouble Debt Restructurings (TDR) that occurred during the years ended December 31, 2015 and 2014.

None of the loans accounted for as TDR from previous years were in default as of December 31, 2015. At December 31, 2015 the Bank had no unfunded commitments on TDR loans. There were no unfunded commitments on TDR loans at December 31, 2014. Loans are accounted for as TDR when significant concessions have been granted that would not have otherwise been considered except for the borrower's financial difficulties. Concessions may include extended repayment terms such as interest only payments or lengthened maturities, or interest rate modifications and are granted to improve the likelihood that the borrower will be able to repay the obligation. TDR loans are included in impaired loans and the methodology for evaluating credit losses and accrual status is the same as for other impaired loans.

5. Allowance for Loan Losses:

The Bank maintains an allowance for loan losses (“ALLL”) to absorb losses resulting from the inherent risks of lending. The balance of the ALLL is reviewed at least quarterly to assess the adequacy relative to probable estimated losses within the loan portfolio. The methodology is consistent with the Contingencies and Receivables topics of the FASB ASC and did not significantly change during 2015 or 2014. The ALLL includes a general allowance based on quantitative and qualitative factors on non-impaired loans plus specific reserves on impaired loans established to account for credit attributes of the individual relationships. Credit risk is managed through established policies and procedures including lending limits, diversification, approval requirements, and an ongoing comprehensive review process. The review process includes assigning a numerical risk rating to a loan when originated, and then modifying that risk rating as circumstances dictate.

These Loan risk ratings are assigned as follows:

A rating of 1-2 indicates low apparent credit risk.
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 identified and charge-off is imminent.

5. Allowance for Loan Losses, Continued:

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

2015

			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	**3.03**	**$ 80,974,671**	**$ 537,544**	**$ 14,451**	**$ 125,000**	**$ 676,995**	**$ 496,104**	**$ 180,891**
Commercial real estate	**2.73**	**65,563,140**	**1,290,033**	**3,233**	**330,000**	**1,623,266**	**-**	**1,623,266**
Agriculture	**3.02**	**47,887,848**	**1,695,276**	**(1,454,665)**	**170,000**	**410,611**	**-**	**410,611**
Government guaranteed	**2.23**	**21,158,781**	**1,280**	**(8,886)**	**11,000**	**3,394**	**-**	**3,394**
Commercial	**2.68**	**33,070,948**	**232,006**	**4,463**	**32,500**	**268,969**	**-**	**268,969**
Real estate	**3.09**	**26,253,702**	**87,612**	**(2,080)**	**25,000**	**110,532**	**-**	**110,532**
Municipal	**2.67**	**8,380,440**	**32,810**	**-**	**13,000**	**45,810**	**-**	**45,810**
Consumer	**3.39**	**3,448,084**	**56,843**	**(5,068)**	**17,500**	**69,275**	**-**	**69,275**
Total	**3.03**	**$ 286,737,614**	**$3,933,404**	**$(1,448,552)**	**$ 724,000**	**$3,208,852**	**$ 496,104**	**$2,712,748**

2014

			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	2.95	$ 77,635,459	$ 457,497	$ 60,047	$ 20,000	$ 537,544	$ 421,544	$ 116,000
Commercial real estate	2.78	52,958,598	1,558,213	(288,180)	20,000	1,290,033	-	1,290,033
Agriculture	2.89	43,581,661	505,276	-	1,190,000	1,695,276	1,528,050	167,226
Government guaranteed	1.54	18,998,015	17,246	(75,966)	60,000	1,280	-	1,280
Commercial	2.66	29,772,701	857,799	(630,793)	5,000	232,006	-	232,006
Real estate	3.07	22,141,810	113,337	(29,725)	4,000	87,612	-	87,612
Municipal	2.72	6,392,351	32,060	-	750	32,810	-	32,810
Consumer	3.39	2,835,799	58,667	(2,074)	250	56,843	-	56,843
Total	2.77	$ 254,316,394	$3,600,095	$ (966,691)	$1,300,000	$3,933,404	$ 1,949,594	$1,983,810

6. Property:

Property at December 31 consists of the following:

	2015	2014
Land	**$ 865,464**	$ 830,150
Buildings and improvements	**9,830,940**	7,759,721
Furniture and equipment	**4,923,505**	4,562,425
	15,619,909	13,152,296
Accumulated depreciation	**(6,454,183)**	(5,825,527)
	$ 9,165,726	$ 7,326,769

Depreciation expense of $651,369 and $538,591 was recognized in the years ending December 31, 2015 and 2014, respectively.

8. Other Assets:

	2015	2014
Prepaid expenses	**540,992**	393,864
Investment in unconsolidated subsidiaries (Trusts) (Note 11)	**217,000**	217,000
Other equity securities	**190,425**	-
Capital issuance costs, net of $217,800 and $170,000 amortization in 2015 and 2014, respectively	**21,207**	51,303
Other items, net	**65,206**	7,915
	$ 1,034,830	$ 670,082

9. Deposits:

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

	2015	2014
Less than one year	**$ 35,667,834**	$ 37,702,117
One to three years	**10,351,659**	8,353,085
Over three years	**3,733,766**	3,583,580
	$ 49,753,259	$ 49,638,782

10. Borrowings:

At December 31, 2015, the Bank has unused credit available totaling approximately $51,000,000 from the Federal Home Loan Bank of Seattle, $20,000,000 of federal funds lines with correspondent banks and $6,600,000 with the Federal Reserve Bank of San Francisco. There were no balances outstanding on these credit lines at December 31, 2015 or December 31, 2014.

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, 2015, Bancorp had two wholly-owned trusts ("Trusts") that were formed to issue trust preferred securities and related common securities. The Trusts issued Capital Securities ("Trust Preferred Securities") and invested the proceeds in a like amount of Junior Subordinated Debentures ("Debentures") of BEO Bancorp. Interest distributions on the Trust Preferred Securities are payable quarterly and are deferrable, at Bancorp's option, for up to five years. The Debentures bear the same terms and interest rates as the related Trust Preferred Securities. The Debentures are the sole assets of the Trusts. Bancorp has unconditionally guaranteed all of the obligations of the Trusts.

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

In accordance with provisions of ASC 810 the Trusts have not been consolidated in these financial statements. The $7,217,000 of Debentures issued to the Trusts as of December 31, 2015 is reflected as subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets (Note 8).

In February 2015 Bancorp issued a total of $1,850,000 in 4% 5-year Callable Subordinated Notes ("Notes") in a private offering to fund a portion of the cash consideration of the purchase of Bank Reale. Interest is payable quarterly. Prepayment of the Notes, in whole or in part, may be made at the election of Bancorp at any time after the first anniversary date.

A summary of the terms of all outstanding subordinated debentures at December 31, 2015 is as follows:

	BEO Trust I	BEO Trust II	Callable Subordinated Notes
Amount outstanding	$4,124,000	$3,093,000	$1,850,000
Date of original issue	December 17, 2003	March 17, 2005	February 20, 2015
Stated maturity	December 17, 2033	March 17, 2035	January 31, 2020
Interest rate	LIBOR plus 2.85% (3.18% at 12/31/2015)	LIBOR plus 1.90% (2.23% at 12/31/2015)	4%

12. Interest Expense:

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

	2015	2014
Savings and interest-bearing demand	**$ 327,691**	$ 315,111
Time deposits in excess of $100,000	**191,355**	143,231
Other time deposits	**218,689**	266,713
Interest expense on deposits	**737,735**	725,055
Subordinated debentures (Note 11)	**430,189**	268,548
Short-term borrowings	**3,294**	3,839
Total interest expense	**$ 1,171,218**	$ 997,442

13. Benefit Plans:

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

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

Employer contributions charged to expense were $340,551 and $330,964 in 2015 and 2014, respectively. During 2015 and 2014 the plan purchased 7,693 and 8,209 shares of BEO Bancorp stock at a cumulative purchase price of $181,993 and $200,219, respectively. At December 31, 2015 the plan held 92,519 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, 2015 and 2014, the Bank recorded a salary continuation benefit obligation included in other liabilities of $1,054,672 and $949,811, respectively. During 2015 and 2014, $72,471 and $72,471 was paid in benefits and the amount of expense charged to income was $177,332 and $172,013, respectively.

14. Income Taxes:

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

	2015	2014
Currently payable (refundable):		
Federal	**$ 1,027,000**	$ 630,000
State	**157,000**	84,000
	1,184,000	714,000
Deferred:		
Federal	**187,000**	238,000
State	**43,000**	55,000
	230,000	293,000
	$ 1,414,000	$ 1,007,000

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:

	2015	2014
Tax on income at federal statutory rate (34%)	**$ 1,506,384**	$ 1,164,703
State income tax, net of federal benefit	**118,927**	67,403
Nontaxable interest income, net of allocable interest expense	**(170,307)**	(175,898)
Other, net	**(41,004)**	(49,208)
	$ 1,414,000	$ 1,007,000

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:

	2015	2014
Deferred compensation not deducted for tax purposes	**$ (43,846)**	$ (41,708)
Loan origination costs	**(2,839)**	9,388
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	**94,590**	(25,469)
Depreciation and amortization	**100,315**	215,526
Other, net	**81,780**	135,263
	$ 230,000	$ 293,000

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

	2015	2014
Assets:		
Allowance for loan losses	**$ 663,368**	$ 740,557
Deferred compensation	**400,286**	397,973
Purchased NOL carryforward	**619,616**	-
Unrealized loss on cash flow hedge instrument	**172,797**	139,806
Total deferred tax assets	**1,856,067**	1,278,336
Liabilities:		
Unrealized gain on investment securities available-for-sale	**53,505**	70,443
Loan origination costs	**126,424**	129,532
Excess tax over book depreciation, amortization and impairment charges	**326,397**	230,364
Prepaid expenses	**139,026**	105,842
Federal Home Loan Bank stock dividends	**33,422**	33,492
Foreclosed assets basis difference	**-**	2,300
Total deferred tax liabilities	**678,774**	571,973
Net deferred tax assets	**$1,177,293**	$ 706,363

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:

	2015	**2014**
Commitments to extend credit	**$ 57,417,141**	$ 49,669,908
Standby letters of credit and financial guarantees written	**1,658,859**	1,086,511

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:

	2015	2014
Balance, January 1	**$ 1,208,276**	$ 1,211,671
Net additions or renewals	**746,983**	435,083
Amounts collected or renewed	**(877,374)**	(438,478)
Balance, December 31	**$ 1,077,885**	$ 1,208,276

In addition, there were $948,488 and $859,931 in commitments to extend credit to directors and officers at December 31, 2015 and 2014, 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:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$31,219,693**	**$31,219,693**	$40,984,609	$ 40,984,609
Investment securities	**21,939,117**	**21,939,117**	17,358,471	17,358,471
Loans, net of allowance for loan losses	**283,528,762**	**294,703,182**	250,382,990	260,326,347
Interest receivable	**3,062,623**	**3,062,623**	3,069,856	3,069,856
Federal Home Loan Bank stock	**390,800**	**390,800**	509,800	509,800
Financial liabilities:				
Deposits	**317,659,789**	**318,017,959**	291,832,772	292,287,820
Cash flow hedge	**431,993**	**431,993**	349,515	349,515
Trust Preferred Securities	**7,217,000**	**6,249,598**	7,217,000	6,147,362
Other subordinated debentures	**1,850,000**	**1,850,000**	-	-
Accrued interest payable	**91,427**	**91,427**	56,404	56,404

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

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

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

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

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, 2015					
Recurring items, assets (liabilities):					
Cash flow hedge instrument	**$ (431,993)**	**$ -**	**$ (431,993)**	**$ -**	
Investment securities available for sale	**18,137,046**	**-**	**18,137,046**	**-**	
Total items measured at fair value on a recurring basis	**$17,705,053**	**$ -**	**$17,705,053**	**$ -**	
Non-recurring items:					
Impaired loans net of reserves	**$ 7,093,846**	**$ -**	**$ -**	**$ 7,093,846**	**$ 8,441**
Foreclosed assets	**1,059,250**	**-**	**-**	**1,059,250**	**-**
Total items measured at fair value on a non-recurring basis	**$ 8,153,096**	**$ -**	**$ -**	**$ 8,153,096**	
December 31, 2014					
Recurring items, assets (liabilities):					
Cash flow hedge instrument	$ (349,515)	$ -	$ (349,515)	$ -	
Investment securities available for sale	13,108,009	-	13,108,009	-	
Total items measured at fair value on a recurring basis	$12,758,494	$ -	$12,758,494	$ -	
Non-recurring items:					
Impaired loans net of reserves	$ 8,789,601	$ -	$ -	$ 8,789,601	$1,300,000
Foreclosed assets	328,310	-	-	328,310	22,825
Total assets measured at fair value on a non-recurring basis	$ 9,117,911	$ -	$ -	$ 9,117,911	

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 12/31/14	$ 8,789,601	$ 328,310	$ 9,117,911
Net unrealized losses	(8,441)	-	(8,441)
Net realized gains (losses)	-	(92,984)	(92,984)
Additions, collections and deletions, net	(628,064)	-	(628,064)
Transfers between Level III at fair value	(1,059,250)	1,059,250	-
Sales	-	(235,326)	(235,326)
Ending balance 12/31/15	$ 7,093,846	$ 1,059,250	$ 8,153,096

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, the Bank is subject to various regulatory capital requirements administered by the 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. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. As a Small Bank Holding Company, Bancorp's capital adequacy is measured through the Bank.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity, Tier I and Total 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, 2015, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized. There are no conditions or events subsequent to that notification that management believes have changed the institution's category.

18. Regulatory Matters, Continued:

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

Under regulations in effect at December 31, 2015:

	Actual		**For Capital Adequacy Purposes**		**To be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2015:						
Common tier 1 to risk-weighted assets						
Bank of Eastern Oregon	**35,725**	**11.92%**	**13,695**	**4.5%**	**19,781**	**6.5%**
Tier1 capital to risk-weighted assets						
Bank of Eastern Oregon	**35,725**	**11.92%**	**18,259**	**6.0%**	**24,346**	**8.0%**
Total capital to risk-weighted assets						
Bank of Eastern Oregon	**38,959**	**13.00%**	**24,346**	**8.0%**	**30,432**	**10.0%**
Tier I leverage ratio						
Bank of Eastern Oregon	**35,725**	**10.11%**	**14,131**	**4.0%**	**17,664**	**5.0%**

Under regulations in effect at December 31, 2014:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Tier I capital (to risk-weighted assets)						
Bank of Eastern Oregon	30,325	11.72%	10,353	4%	15,529	6%
Total capital (to risk-weighted assets)						
Bank of Eastern Oregon	33,560	12.97%	20,706	8%	25,820	10%
Tier I capital (to leverage assets)						
Bank of Eastern Oregon	30,325	9.36%	12,960	4%	16,201	5%

19. Parent Company Financial Information:

Financial information for BEO Bancorp is presented below:

BALANCE SHEETS

	December 31	
	2015	**2014**
Assets:		
Cash, deposited with the Bank	**$ 513,877**	$ 1,677,213
Investments in:		
Bank subsidiary	**36,473,289**	30,461,355
Nonbank subsidiaries (Trusts)	**217,000**	217,000
Other assets, net of amortization	**194,004**	191,109
	$ 37,398,170	$ 32,546,677
Liabilities and stockholders' equity:		
Liabilities:		
Accrued interest payable	**$ 25,579**	$ 7,079
Other Accrued Liabilities	**22,300**	**22,300**
Unrealized loss on cash flow hedge instrument	**431,993**	349,515
Subordinated debt	**9,067,000**	7,217,000
Total liabilities	**9,546,872**	7,595,894
Stockholders' equity:		
Common stock	**3,066,453**	2,984,623
Surplus	**4,209,520**	3,408,712
Retained earnings and accumulated other comprehensive income	**20,795,035**	18,713,676
Treasury stock at cost (6,528 shares)	**(219,710)**	(156,228)
Total stockholders' equity	**27,851,298**	24,950,783
Total liabilities and stockholders' equity	**$ 37,398,170**	$ 32,546,677

BEO Bancorp and Subsidiary

Notes to Consolidated Financial Statements, Continued

19. Parent Company Financial Information, Continued:

STATEMENTS OF INCOME

	Year Ended December 31	
	2015	**2014**
Cash dividends from Bank	**$ 852,832**	$ 712,693
Less:		
Interest expense	**(429,613)**	(267,187)
Professional fees and administrative expenses	**(263,687)**	(159,719)
Amortization of capital issuance costs	**(47,801)**	(10,000)
Income (loss) before equity in undistributed earnings of the Bank	**111,731**	275,787
Equity in undistributed earnings of Bank	**2,644,803**	1,942,803
Credit for income taxes	**260,000**	200,000
Net income	**$ 3,016,534**	$ 2,418,590

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2015	**2014**
Operating activities:		
Net income	**$ 3,016,534**	$ 2,418,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of the Bank	**(2,644,803)**	(1,942,803)
Amortization of capital issuance costs	**47,801**	10,000
Change in other assets and liabilities	**818**	(29,016)
Net cash provided by operating activities	**420,350**	456,771
Investing activities:		
Investment in subsidiaries	**(3,400,010)**	1,473,750
Financing activities:		
Issuance (Retirement) of subordinated debt	**1,850,000**	(1,473,750)
Issuance of Common Stock	**1,459,686**	895,178
Repurchase of common stock	**(640,530)**	(156,228)
Dividends paid	**(852,832)**	(712,693)
Net cash provided by financing activities	**1,816,324**	(1,447,493)
Net increase (decrease) in cash	**(1,163,336)**	483,028
Cash, beginning of year	**1,677,213**	1,194,185
Cash, end of year	**$ 513,877**	$ 1,677,213

20. Acquisition:

On February 28, 2015 Bancorp acquired 100% of the voting stock of Bank Reale of Pasco, Washington. Consideration for the transaction was $1,929,833 cash and 57,140 shares of Bancorp common stock. Neither Bank Reale nor Bancorp shares were or are actively traded publically or listed on an exchange, therefore a definitive fair market value of the consideration is not readily determinable. The acquisition allows the Bank of Eastern Oregon entry into the eastern Washington market and upon acquisition the Pasco location became a branch of Bank of Eastern Oregon doing business as Bank of Eastern Washington.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash and due from banks	$ 8,204,575
Loans	26,613,824
Property and improvements	1,746,414
Deferred taxes	650,597
Other assets	493,403
Deposits	(34,193,845)
Other Liabilities	(114,958)
Total identifiable net assets	$ 3,400,010

The fair value of net assets acquired includes fair value adjustments to loans that were not considered impaired as of the acquisition date. Management believes that substantially all contractual cash flows related to these financial instruments will be collected. Loans acquired that were not subject to the guidance relating to purchased credit impaired loans on the date of acquisition had a fair value of $26,182,087 and a gross contractual balance of $27,136,716.

The amounts of net interest income and earnings included in Bancorp's consolidated income statement for the year ended December 31, 2015, and the net interest income and earnings of the combined entity had the acquisition date been January 1, 2014, are shown in the following table. The pro forma financial information is not necessarily indicative of actual results that would have occurred had the acquisition been effective on the assumed date.

	Net Interest Income	Net Income
Actual amounts included in consolidated earnings from 3/1/2015 to 12/31/2015	$ 1,947,090	$ 986,806
Supplemental pro forma from 1/1/2014 to 12/31/2014	$ 15,752,901	$ 2,252,936

Acquisition costs of $199,115 and $56,140 were recognized in 2015 and 2014 respectively, and are included in other expenses.