

**COMMUNITY FIRST
BANCORPORATION, INC.
AND SUBSIDIARY
KENNEWICK, WA**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2015 AND 2014

CONTENTS

	PAGE
AUDITED CONSOLIDATED FINANCIAL STATEMENTS:	
Independent Auditor's Report.....	1
Community First Bancorporation, Inc. and Subsidiary:	
Balance Sheets.....	3
Statements of Income.....	4
Statements of Comprehensive Income.....	5
Statements of Changes in Shareholders' Equity.....	6
Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
OTHER FINANCIAL INFORMATION:	
Community First Bancorporation, Inc. and Subsidiary:	
Consolidating Balance Sheet.....	45
Consolidating Statement of Income.....	46
Community First Bank (Bank Only):	
Balance Sheets.....	47
Statements of Income.....	48
Statements of Changes in Shareholder's Equity.....	49
Statements of Cash Flows.....	50

NOTE: This annual report serves as the Bank's annual disclosure statement under requirements of the Federal Deposit Insurance Corporation (FDIC). This statement has not been reviewed, or confirmed for accuracy or relevance, by the FDIC.



INDEPENDENT AUDITOR'S REPORT

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The Board of Directors and Shareholders
of Community First Bancorporation, Inc.
Kennewick, WA

We have audited the accompanying consolidated financial statements of Community First Bancorporation, Inc. and Subsidiary, which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of income, comprehensive income, changes in shareholders' 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 the 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 Community First Bancorporation, Inc. and Subsidiary as of December 31, 2015 and 2014 and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 45-51 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
March 24, 2016

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 3	\$ 4,907	\$ 1,331
Interest-bearing deposits in financial institutions maturing in less than three months	26,732	41,102
Total cash and cash equivalents	31,639	42,433
Interest-bearing deposits in financial institutions maturing in more than three months	14,648	18,344
Investment securities - Note 4	69,265	66,360
Federal Home Loan Bank stock, at cost - Note 2	349	209
Loans, net of deferred loan fees and allowance for loan losses - Note 5	145,039	138,544
Premises and equipment, net of accumulated depreciation - Note 6	2,822	2,782
Bank-owned life insurance	4,293	4,172
Accrued interest receivable	802	814
Other assets	300	164
Total Assets	\$ 269,157	\$ 273,822
 LIABILITIES		
Deposits - Note 7	\$ 244,158	\$ 250,425
Advances from Federal Home Loan Bank - Note 8	500	500
Other liabilities:		
Accrued interest payable	33	42
Accrued expenses and other liabilities	176	137
Total other liabilities	209	179
Total Liabilities	244,867	251,104
 Commitments and contingencies - Notes 6, 10, 11, 12, 13 and 14		
 SHAREHOLDERS' EQUITY		
Common stock, \$1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 454,495 and 450,668 shares at December 31, 2015 and 2014, respectively	455	451
Additional paid-in capital	11,035	10,820
Retained earnings	12,328	10,876
Accumulated other comprehensive income	472	571
Total Shareholders' Equity	24,290	22,718
Total Liabilities and Shareholders' Equity	\$ 269,157	\$ 273,822

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands, except for per share amounts)

	2015	2014
Interest income		
Interest and fees on loans	\$ 6,998	\$ 7,035
Interest on investment securities	1,149	1,082
Interest on federal funds sold and interest-bearing deposits with financial institutions	227	218
Total interest income	8,374	8,335
Interest expense		
On deposits	371	385
On borrowed funds	25	34
Total interest expense	396	419
Net interest income	7,978	7,916
Provision for loan losses - Note 5	45	-
Net interest income after provision for loan losses	7,933	7,916
Non-interest income		
Service charges and fees on deposit accounts	339	368
Mortgage broker fees	26	42
Earnings on bank-owned life insurance	121	124
Net gain on sales of loans	197	287
Other	395	370
Total non-interest income	1,078	1,191
Non-interest expense		
Salaries and employee benefits	3,593	3,940
Occupancy	450	430
Furniture and equipment	195	151
Data processing	321	295
Professional fees	310	204
Amortization of goodwill - Note 2	-	489
Other operating expenses	1,330	1,017
Total non-interest expense	6,199	6,526
Net Income	\$ 2,812	\$ 2,581
Basic earnings per share of common stock	\$ 6.20	\$ 5.74
Average shares of common stock outstanding	453,635	449,367

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
Net Income	\$ 2,812	\$ 2,581
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Change in net unrealized gain during the year	(99)	356
Other comprehensive income (loss)	(99)	356
Comprehensive Income	\$ 2,713	\$ 2,937

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2014	\$ 445	\$ 10,458	\$ 9,643	\$ 215	\$ 20,761
Sale of stock	4	247			251
Exercise of stock options	1	43			44
Stock option compensation expense		1			1
Restricted stock compensation expense		23			23
Directors stock compensation expense	1	48			49
Comprehensive income for the year ended December 31, 2014			2,581	356	2,937
Dividends paid - \$3.00 per share			(1,348)		(1,348)
Balance at December 31, 2014	451	10,820	10,876	571	22,718
Sale of stock	2	90			92
Exercise of stock options	1	56			57
Stock option compensation expense		2			2
Restricted stock compensation expense		9			9
Directors stock compensation expense	1	58			59
Comprehensive income (loss) for the year ended December 31, 2015			2,812	(99)	2,713
Dividends paid - \$3.00 per share			(1,360)		(1,360)
Balance at December 31, 2015	<u>\$ 455</u>	<u>\$ 11,035</u>	<u>\$ 12,328</u>	<u>\$ 472</u>	<u>\$ 24,290</u>

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,812	\$ 2,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	303	292
Provision for loan losses	45	-
Net amortization on investment securities	601	608
Stock option compensation expense	2	1
Restricted stock compensation expense	9	23
Directors stock compensation expense	59	49
Earnings on bank-owned life insurance	(121)	(124)
Originations of loans held-for-sale	(9,506)	(13,814)
Proceeds from sales of loans held-for-sale	9,915	13,518
Net gain on sales of loans	(197)	(287)
Amortization of goodwill	-	489
Increase in net deferred loan fees	93	-
(Increase) decrease in accrued interest receivable	12	(81)
Decrease in accrued interest payable	(9)	(5)
Other	(131)	(121)
Total adjustments	<u>1,075</u>	<u>548</u>
Net Cash Provided by Operating Activities	<u>3,887</u>	<u>3,129</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in interest-bearing deposits in financial institutions maturing in more than three months	3,696	(237)
Purchases of investment securities:		
Available-for-sale	(17,397)	(23,973)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	8,973	12,565
Proceeds from principal paydowns on investment securities:		
Available-for-sale	4,819	3,078
Purchases of FHLB stock	(146)	-
Proceeds from redemptions of FHLB stock	6	8
Net increase in loans made to customers	(6,845)	(11,535)
Purchases of premises and equipment	(309)	(177)
Proceeds from disposals of premises and equipment	-	3
Net Cash Used by Investing Activities	<u>\$ (7,203)</u>	<u>\$ (20,268)</u>

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings	\$ (4,811)	\$ 29,262
Net increase (decrease) in time deposits	(1,456)	85
Principal payments on other long-term borrowings	-	(741)
Proceeds from sales of common stock	92	251
Proceeds from stock options exercised	57	44
Dividends paid	(1,360)	(1,348)
Net Cash Provided (Used) by Financing Activities	(7,478)	27,553
Net increase (decrease) in cash and cash equivalents	(10,794)	10,414
Cash and cash equivalents at beginning of year	42,433	32,019
Cash and cash equivalents at end of year	\$ 31,639	\$ 42,433
 SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	\$ 405	\$ 424

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 History

Community First Bancorporation, Inc. was formed August 6, 2004 to serve as a bank holding company. The Corporation was activated January 1, 2005, when Community First Bancorporation, Inc. and Community First Bank entered into a Share Exchange Agreement in order to effect the acquisition of 100 percent of the issued and outstanding common stock of the Bank. Each eligible Bank Shareholder received one share of Corporation stock in exchange for each share of Bank stock owned.

In order to effect a conversion to a Subchapter S corporation, there was a 1-for-1,000 reverse stock split. During 2005, Community First Merger Corporation, Inc. was formed in order to effectuate the Subchapter S conversion. Effective January 1, 2006, Community First Bancorporation, Inc. and Community First Merger Corporation, Inc., a Subchapter S corporation, merged. After this merger, a 1,000-for-1 stock split occurred, which restored the number of shares to the original amounts prior to the reverse stock split.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Corporation include its accounts and those of its one hundred percent (100%) owned subsidiary, Community First Bank (“Bank”). The accounting and reporting policies of both entities are in accordance with accounting principles generally accepted in the United States of America. All dollar amounts, except per share information, are stated in thousands.

Principles of Consolidation

In the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated upon consolidation.

Nature of Operations

Community First Bancorporation, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Community First Bank. Community First Bank operates four offices in Kennewick, Connell, Pasco and Richland, Washington. Community First Bank provides loan services to and accepts deposits from customers, who are predominately small- and middle-market businesses and middle-income individuals, in Southeastern Washington State. Funding sources are deposits from customers, public entities and borrowings from various sources. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Washington State Department of Financial Institutions and the Federal Deposit Insurance Corporation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Estimates, continued

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents and Cash Flows

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions, interest-bearing deposits maturing in three months or less and federal funds sold. The Corporation reports net cash flows from customer loan transactions, deposit transactions and short-term borrowings.

Investment Securities

The Corporation accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Investment Securities, continued

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank Stock

At December 31, 2015 and 2014, the Corporation had \$349,000 and \$209,000, respectively, recorded for stock in the Federal Home Loan Bank (FHLB). As a member of the FHLB system, the Corporation is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of .5% of its outstanding mortgage related assets or 4.5% of advances from the FHLB. The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the \$100 per share par value. This stock is classified as a restricted investment security, carried at cost and evaluated annually for impairment. During 2015 and 2014, no impairment loss was recorded.

Loans Held-for-Sale

Mortgage loans originated for sale in the foreseeable future in the secondary market are carried at the lower of aggregate cost or estimated market value. Gains and losses on sales of loans are recognized at the settlement date and are determined by the difference between the sales proceeds and the carrying value of the loans. Sales are made without recourse. Net unrealized losses, if any, are recognized through a valuation allowance established by charges to income.

The Corporation issues various representations and warranties associated with the sale of loans. During 2015 and 2014, there were no losses incurred regarding these representations and warranties.

Loans

Loans are stated at the principal amount outstanding less net deferred loan fees and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding. Generally the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectibility of principal is in doubt, cash receipts on nonaccrual loans are applied to reduce the principal balance on a cash-basis method, until the loans qualify for return to accrual status or principal is paid in full. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is determined based on contractual terms.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Loan Origination Fees and Costs

Beginning in 2015, loan origination fees and costs are deferred and amortized into income as an adjustment to yield over the life of the related loan. Prior to 2015, loan origination fees were recognized as income and loan origination costs were expensed as incurred, as management determined that capitalization of these items would be immaterial to the consolidated financial statements.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

Periodically, regulatory agencies review the Corporation's allowance for loan losses as an integral part of their examination process, and may require the Corporation to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 7 years for furniture and equipment, and 30 to 40 years for buildings and improvements. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is less.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts. These assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines that an impairment exists, the asset is reduced with an offsetting charge to expense.

Other Real Estate Owned

Other real estate owned is foreclosed property held pending disposition and is initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. At foreclosure, if the fair value of the real estate acquired less estimated selling costs is less than the Corporation's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Goodwill

Goodwill resulted from the Connell branch acquisition and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment is recognized in the period identified. During 2014, the Corporation early adopted ASU 2014-02 and as a result the remaining \$489,000 of goodwill was fully amortized. Refer to Note 2 – New Accounting Standards for additional information.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Reserve for Unfunded Commitments

The Corporation has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. At December 31, 2015 and 2014, this reserve totaled \$50,000.

Federal Income Taxes

Effective January 1, 2006, the shareholders of the Corporation elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Corporation's taxable income.

The Corporation and the Bank join in filing federal income tax returns.

The Companies maintain their records for financial reporting on the accrual basis of accounting. The Companies maintain their records for income tax reporting on the cash basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Corporation performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the consolidated financial statements. No uncertain tax positions were identified. The December 31, 2012 through December 31, 2015 tax years remain subject to examination by the Internal Revenue Service. The Corporation does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the consolidated financial statements. The Corporation records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2015 or 2014.

Stock-Based Compensation

The Corporation has stock-based employee and director compensation plans which are more fully described in Note 15. The Corporation has adopted authoritative guidance issued by the FASB regarding accounting for stock compensation expense. As a result of adopting the FASB authoritative guidance, the Corporation's net income is \$70,000 and \$73,000 lower for the years ended December 31, 2015 and 2014, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Comprehensive Income

The Corporation has adopted authoritative guidance issued by the FASB. The FASB authoritative guidance establishes standards for reporting and display of comprehensive income and its components. The Corporation reports comprehensive income in the statement of comprehensive income.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of \$41,000 and \$49,000 were expensed during 2015 and 2014, respectively.

Fair Values of Financial Instruments

Authoritative guidance issued by the FASB requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and Due From Banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate those assets' fair values.

Interest-Bearing Deposits: Fair values for interest-bearing deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar deposits to a schedule of aggregated contractual maturities on such deposits.

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Federal Home Loan Bank Stock: The carrying amount reported in the balance sheet for FHLB stock approximates its fair value.

Loans Held-for-Sale: Fair values for loans held-for-sale are based on their estimated market price.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Bank-Owned Life Insurance: The carrying amount reported in the balance sheet for bank-owned life insurance approximates its fair value.

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates its fair value.

FHLB Advances: The fair values of FHLB advances are estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements.

Book Value and Tangible Book Value per Share

Book value and tangible book value per share is calculated by dividing the total shareholders' equity shown on the consolidated balance sheets by the number of shares outstanding as of year-end. At December 31, 2015 and 2014, the book value and tangible book value per share is \$53.44 and \$50.41, respectively.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Corporation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Corporation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2015 through March 24, 2016, the date the financial statements were available to be issued. Refer to Note 20 for information regarding the subsequent event identified by the Corporation.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 **Summary of Significant Accounting Policies, continued**

New Accounting Standards

In January 2014, the FASB issued Accounting Standards Update (ASU) 2014-02, *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill*. The amendments in this update allow an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this update should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. When a triggering event occurs, an entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill (or the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit). If the qualitative assessment indicates that it is more likely than not that goodwill is impaired, further testing is unnecessary. The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance. The Corporation early adopted this guidance effective January 1, 2014. As a result, net income for 2014 was reduced by \$489,000.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)*, which amended its authoritative guidance related to residential real estate to 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 either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. This amendment became effective in 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a corporation will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the corporation expects to be entitled in exchange for those goods or services. In doing so, corporations will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 **Summary of Significant Accounting Policies, continued**

New Accounting Standards, continued

the effective date of the standard by one year. Therefore, the new standard will be effective for annual reporting periods beginning after December 31, 2018. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures*. This guidance amended previous guidance related to repurchase-to-maturity transactions to require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendment requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The amendment requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, the amendment requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. This amendment became effective during 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This guidance amended previous guidance related to foreclosed home loans with government-backed guarantees. The amendment requires lenders to measure the unpaid principal and interest they expect to recover through the loan guarantee. The loan should be removed from the lender's asset total and added to the balance sheet as a new receivable. This amendment became effective during 2015 and did not have a significant impact on the Corporation's consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which amended its authoritative guidance related to debt issuance costs. The amendment requires 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 the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. Early adoption is permitted. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance amends previous guidance related to accounting for leases. The amendment will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a term of more than 12 months. This amendment is effective for annual and interim periods beginning after December 15, 2018 for public companies. For other organizations, it is effective for annual periods beginning after December 15, 2019. The impact of this guidance on the Corporation's consolidated financial statements has not yet been determined.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 3 Restrictions on Cash and Due From Banks

The Corporation is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2015 and 2014 was \$5,851,000 and \$5,361,000, respectively.

Note 4 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2015 are as follows (in thousands):

	December 31, 2015			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Treasury notes	\$ 12,943	\$ 19	\$ (17)	\$ 12,945
U.S. Government agencies	17,841	97	(15)	17,923
U.S. Government agency mortgage-backed securities	2,434	9	(10)	2,433
Collateralized mortgage obligations	14,236	111	(66)	14,281
Corporate securities	500	-	(4)	496
Obligations of state and political subdivisions	20,839	369	(21)	21,187
Total available-for-sale securities	\$ 68,793	\$ 605	\$ (133)	\$ 69,265

The balance sheet as of December 31, 2015 reflects the fair value of available-for-sale securities in the amount of \$69,265,000. A net unrealized gain of \$472,000 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2014 are as follows (in thousands):

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury notes	\$ 3,975	\$ 11	\$ -	\$ 3,986
U.S. Government agencies	22,360	135	(36)	22,459
U.S. Government agency mortgage-backed securities	3,898	25	(15)	3,908
Collateralized mortgage obligations	16,595	207	(27)	16,775
Corporate securities	500	-	(3)	497
Obligations of state and political subdivisions	18,461	313	(39)	18,735
Total available-for-sale securities	\$ 65,789	\$ 691	\$ (120)	\$ 66,360

The balance sheet as of December 31, 2014 reflects the fair value of available-for-sale securities in the amount of \$66,360,000. A net unrealized gain of \$571,000 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below (in thousands). 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. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	\$ 6,533	\$ 6,550
After one year through five years	37,347	37,604
After five years through ten years	6,999	7,116
After ten years	1,244	1,281
	<u>52,123</u>	<u>52,551</u>
U.S. Government agency mortgage-backed securities	2,434	2,433
Collateralized mortgage obligations	14,236	14,281
Totals	\$ 68,793	\$ 69,265

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 Investment Securities, continued

Investment securities with fair market values of \$8,246,000 and \$8,492,000 at December 31, 2015 and 2014, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

There were no sales of investment securities during 2015 and 2014. During 2015 and 2014, the Corporation received proceeds totaling \$6,000 and \$8,000, respectively, from the redemptions of Federal Home Loan Bank (FHLB) stock. The FHLB stock was redeemed at par value, so there were no realized gains or losses on these redemptions.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2015:						
Federal agencies	\$ 19,138	\$ (108)	\$ -	\$ -	\$ 19,138	\$ (108)
Corporate securities	496	(4)	-	-	496	(4)
Municipals	1,536	(4)	1,619	(17)	3,155	(21)
Total	\$ 21,170	\$ (116)	\$ 1,619	\$ (17)	\$ 22,789	\$ (133)
December 31, 2014:						
Federal agencies	\$ 14,842	\$ (68)	\$ 1,212	\$ (10)	\$ 16,054	\$ (78)
Corporate securities	497	(3)	-	-	497	(3)
Municipals	1,645	(4)	2,562	(35)	4,207	(39)
Total	\$ 16,984	\$ (75)	\$ 3,774	\$ (45)	\$ 20,758	\$ (120)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2015, the 29 debt securities with unrealized losses have depreciated less than 1% from the Corporation's amortized cost basis. These securities are primarily guaranteed by either the U.S. Government or other governments. The unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Commercial, agricultural and industrial loans	\$ 23,886	\$ 23,722
Real estate (RE) loans:		
Construction, land and land development	15,370	13,632
Residential 1-4 family	18,032	17,784
Commercial RE	87,108	82,442
Consumer loans	2,382	2,528
Overdrafts	44	36
	146,822	140,144
Less: Net deferred loan fees	(94)	-
Allowance for loan losses	(1,689)	(1,600)
Loans, Net	\$ 145,039	\$ 138,544

At December 31, 2015 and 2014, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling \$371,000 and \$583,000, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2015 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial RE	Consumer and Other	Unallocated	2015 Total
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 159	\$ 17	\$ 345	\$ 245	\$ 57	\$ 777	\$ 1,600
Provisions, charged (credited) to income	<u>(138)</u>	<u>(10)</u>	<u>(60)</u>	<u>(137)</u>	<u>(17)</u>	<u>407</u>	<u>45</u>
	<u>21</u>	<u>7</u>	<u>285</u>	<u>108</u>	<u>40</u>	<u>1,184</u>	<u>1,645</u>
Loans charged-off	-	-	-	-	(7)	-	(7)
Recoveries of loans previously charged-off	<u>12</u>	<u>-</u>	<u>-</u>	<u>34</u>	<u>5</u>	<u>-</u>	<u>51</u>
Net (charge-offs) recoveries	<u>12</u>	<u>-</u>	<u>-</u>	<u>34</u>	<u>(2)</u>	<u>-</u>	<u>44</u>
Balance, end of year	<u>\$ 33</u>	<u>\$ 7</u>	<u>\$ 285</u>	<u>\$ 142</u>	<u>\$ 38</u>	<u>\$ 1,184</u>	<u>\$ 1,689</u>
Ending balance: Individually evaluated for impairment	\$ 2	\$ -	\$ 242	\$ 9	\$ 1	\$ -	\$ 254
Ending balance: Collectively evaluated for impairment	<u>31</u>	<u>7</u>	<u>43</u>	<u>133</u>	<u>37</u>	<u>1,184</u>	<u>1,435</u>
Balance, end of year	<u>\$ 33</u>	<u>\$ 7</u>	<u>\$ 285</u>	<u>\$ 142</u>	<u>\$ 38</u>	<u>\$ 1,184</u>	<u>\$ 1,689</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 91	\$ -	\$ 1,210	\$ 345	\$ 31		\$ 1,677
Ending balance: Collectively evaluated for impairment	<u>23,795</u>	<u>15,370</u>	<u>16,822</u>	<u>86,763</u>	<u>2,395</u>		<u>145,145</u>
Ending balance total loans	<u>\$ 23,886</u>	<u>\$ 15,370</u>	<u>\$ 18,032</u>	<u>\$ 87,108</u>	<u>\$ 2,426</u>		<u>\$ 146,822</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2014 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial RE	Consumer and Other	Unallocated	2014 Total
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 81	\$ 59	\$ 94	\$ 326	\$ 52	\$ 1,003	\$ 1,615
Provisions, charged (credited) to income	<u>62</u>	<u>(42)</u>	<u>251</u>	<u>(48)</u>	<u>3</u>	<u>(226)</u>	<u>-</u>
	<u>143</u>	<u>17</u>	<u>345</u>	<u>278</u>	<u>55</u>	<u>777</u>	<u>1,615</u>
Loans charged-off	-	-	-	(33)	(1)	-	(34)
Recoveries of loans previously charged-off	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>19</u>
Net (charge-offs) recoveries	<u>16</u>	<u>-</u>	<u>-</u>	<u>(33)</u>	<u>2</u>	<u>-</u>	<u>(15)</u>
Balance, end of year	<u>\$ 159</u>	<u>\$ 17</u>	<u>\$ 345</u>	<u>\$ 245</u>	<u>\$ 57</u>	<u>\$ 777</u>	<u>\$ 1,600</u>
Ending balance: Individually evaluated for impairment	\$ -	\$ -	\$ 249	\$ 65	\$ 10	\$ -	\$ 324
Ending balance: Collectively evaluated for impairment	<u>159</u>	<u>17</u>	<u>96</u>	<u>180</u>	<u>47</u>	<u>777</u>	<u>1,276</u>
Balance, end of year	<u>\$ 159</u>	<u>\$ 17</u>	<u>\$ 345</u>	<u>\$ 245</u>	<u>\$ 57</u>	<u>\$ 777</u>	<u>\$ 1,600</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 105	\$ -	\$ 1,262	\$ 302	\$ 45	-	\$ 1,714
Ending balance: Collectively evaluated for impairment	<u>23,617</u>	<u>13,632</u>	<u>16,522</u>	<u>82,140</u>	<u>2,519</u>	<u>-</u>	<u>138,430</u>
Ending balance total loans	<u>\$ 23,722</u>	<u>\$ 13,632</u>	<u>\$ 17,784</u>	<u>\$ 82,442</u>	<u>\$ 2,564</u>	<u>-</u>	<u>\$ 140,144</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

Federal regulations require that the Corporation periodically evaluate the risks inherent in its loan portfolio. In addition, the Corporation's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Corporation also classifies some loans as "Watch" or "Other Assets Especially Mentioned" ("OAEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring than other performing loans. Loans classified as OAEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2015 and 2014 are as follows (in thousands):

	<u>Pass</u>	<u>Other Assets Especially Mentioned</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2015:					
Commercial, agricultural and industrial loans	\$ 22,519	\$ 205	\$ 1,162	\$ -	\$ 23,886
Real estate (RE) loans:					
Construction, land and land development	15,370	-	-	-	15,370
Residential 1-4 family	16,495	593	944	-	18,032
Commercial RE	83,483	960	2,665	-	87,108
Consumer and other loans	<u>2,395</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>2,426</u>
Subtotal	<u>\$ 140,262</u>	<u>\$ 1,758</u>	<u>\$ 4,802</u>	<u>\$ -</u>	146,822
Less: Net deferred loan fees					<u>(94)</u>
Total loans					<u>\$ 146,728</u>
December 31, 2014:					
Commercial, agricultural and industrial loans	\$ 22,538	\$ 403	\$ 781	\$ -	\$ 23,722
Real estate (RE) loans:					
Construction, land and land development	13,566	-	66	-	13,632
Residential 1-4 family	16,479	624	681	-	17,784
Commercial RE	78,454	661	3,327	-	82,442
Consumer and other loans	<u>2,505</u>	<u>15</u>	<u>44</u>	<u>-</u>	<u>2,564</u>
Total loans	<u>\$ 133,542</u>	<u>\$ 1,703</u>	<u>\$ 4,899</u>	<u>\$ -</u>	<u>\$ 140,144</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2015 and 2014 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Real estate (RE) loans:		
Commercial RE	\$ 263	\$ 302
Consumer and other loans	-	1
Total nonaccrual loans	<u>\$ 263</u>	<u>\$ 303</u>

At December 31, 2015 and 2014, a summary of information pertaining to impaired loans is as follows (in thousands):

	<u>Unpaid Contractual Principal Balance</u>	<u>Recorded Investment with No Allowance</u>	<u>Recorded Investment with Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
December 31, 2015:							
Commercial, agriculture and industrial loans	\$ 91	\$ -	\$ 91	\$ 91	\$ 2	\$ 98	\$ 5
Real estate (RE) loans:							
Residential 1-4 family	1,210	-	1,210	1,210	242	1,236	67
Commercial RE	480	-	345	345	9	323	1
Consumer and other loans	<u>31</u>	<u>-</u>	<u>31</u>	<u>31</u>	<u>1</u>	<u>38</u>	<u>2</u>
Total	<u>\$ 1,812</u>	<u>\$ -</u>	<u>\$ 1,677</u>	<u>\$ 1,677</u>	<u>\$ 254</u>	<u>\$ 1,695</u>	<u>\$ 75</u>
December 31, 2014:							
Commercial, agriculture and industrial loans	\$ 105	\$ -	\$ 105	\$ 105	\$ -	\$ 120	\$ 7
Real estate (RE) loans:							
Residential 1-4 family	1,262	-	1,262	1,262	249	1,164	67
Commercial RE	435	-	302	302	65	565	-
Consumer and other loans	<u>45</u>	<u>-</u>	<u>45</u>	<u>45</u>	<u>10</u>	<u>51</u>	<u>2</u>
Total	<u>\$ 1,847</u>	<u>\$ -</u>	<u>\$ 1,714</u>	<u>\$ 1,714</u>	<u>\$ 324</u>	<u>\$ 1,900</u>	<u>\$ 76</u>

The Corporation has no commitments to loan additional funds to borrowers whose loans are impaired.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

Troubled Debt Restructurings

The restructuring of a loan is considered a “troubled debt restructuring” if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

Troubled debt restructurings during 2015 and 2014 are set forth in the following table (in thousands, except for number of contracts):

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2015
December 31, 2015:			
Commercial, agriculture and industrial loans	1	\$ 18	\$ 18
Real estate (RE) loans:			
Commercial RE loans	1	83	82
Total troubled debt restructurings	<u>2</u>	<u>\$ 101</u>	<u>\$ 100</u>
	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2014
December 31, 2014:			
Real estate (RE) loans:			
Residential 1-4 family	1	\$ 359	\$ 219
Total troubled debt restructurings	<u>1</u>	<u>\$ 359</u>	<u>\$ 219</u>

Concessions granted on these loans include reduction of interest rates and restructuring payments to match borrower’s cash flow. At December 31, 2015, all restructured loans were paying in accordance to the restructured terms. At December 31, 2014, there were two consumer loans totaling \$1,000 which were on nonaccrual that were restructured in a prior year. At December 31, 2014, all other restructured loans were paying in accordance to the restructured terms.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2015 and 2014 (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
December 31, 2015:						
Commercial, agricultural and industrial loans	\$ 49	\$ -	\$ 49	\$ 23,837	\$ 23,886	\$ -
Real estate (RE) loans:						
Construction, land and land development	414	-	414	14,956	15,370	-
Residential 1-4 family	-	-	-	18,032	18,032	-
Commercial RE	-	206	206	86,902	87,108	-
Consumer and other loans	-	-	-	2,426	2,426	-
Less: Net deferred loan fees	-	-	-	(94)	(94)	-
Total	\$ 463	\$ 206	\$ 669	\$ 146,059	\$ 146,728	\$ -
December 31, 2014:						
Commercial, agricultural and industrial loans	\$ -	\$ -	\$ -	\$ 23,722	\$ 23,722	\$ -
Real estate (RE) loans:						
Construction, land and land development	1,015	-	1,015	12,617	13,632	-
Residential 1-4 family	30	-	30	17,754	17,784	-
Commercial RE	523	206	729	81,713	82,442	-
Consumer and other loans	-	1	1	2,563	2,564	-
Total	\$ 1,568	\$ 207	\$ 1,775	\$ 138,369	\$ 140,144	\$ -

The Corporation grants commercial, consumer and real estate loans to customers within Southeastern Washington State. A substantial portion of its debtors' ability to honor their contracts is dependent upon the commercial and real estate economic sectors in that geographic area.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 Premises and Equipment

The investment in premises and equipment at December 31, 2015 and 2014 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Land	\$ 449	\$ 449
Buildings	2,536	2,536
Leasehold improvements	491	462
Furniture and equipment	<u>1,488</u>	<u>1,227</u>
	4,964	4,674
Less accumulated depreciation and amortization	<u>(2,142)</u>	<u>(1,892)</u>
Premises and equipment, net	<u>\$ 2,822</u>	<u>\$ 2,782</u>

Depreciation and amortization on premises and equipment charged to expense totaled \$269,000 and \$227,000 for the years ended December 31, 2015 and 2014, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled \$34,000 and \$65,000 for the years ended December 31, 2015 and 2014, respectively.

The Corporation owns the building that houses its main branch and leases the land and a sign from a director. The lease is classified as an operating lease with an initial term of ten years and minimum annual rents of \$28,000, with cost of living increases annually. The initial lease term expired February 28, 2012 and was renewed through February 28, 2017. The land lease contains renewal clauses from five to twenty years and escalation clauses based on increases in the Consumer Price Index. As of December 31, 2015, this lease includes three more renewal options of five years each.

The Corporation has also entered into a lease agreement for the Richland branch facilities which opened in January 2006. The original lease was for a term of five years with a renewal option of another five years and provided for minimum annual rents of \$61,000. On December 31, 2010, the renewal option was exercised and expired December 31, 2015. During 2015, both parties agreed to renew this lease for an additional five years which extended the expiration date to December 31, 2020.

During 2015, the Corporation entered into a lease agreement with a director for its administrative offices. The initial term of this lease is December 1, 2015 through May 31, 2017 and includes a month-to-month lease clause through May 31, 2018. The monthly lease amount is \$1,650.

On December 18, 2015, the Corporation entered into a lease agreement with a director for the facilities that will be used by HFG Trust, LLC, a subsidiary of the Bank that was acquired effective January 1, 2016. Refer to Note 20 for additional information regarding this acquisition. This lease has an effective date of January 1, 2016 through December 31, 2018 and includes options to renew and extend the term for an additional one, two or three years. The lease agreement provides for minimum annual rents of \$60,000 and has annual rent increases based on the Consumer Price Index.

The Corporation recorded lease expense in the amount of \$152,000 for the years ended December 31, 2015 and 2014. Included in the lease expense were amounts paid to a related party in the amount of \$52,000 and \$51,000 for the years ended December 31, 2015 and 2014, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 Premises and Equipment, continued

The minimum payments under the Corporation's leases required for the next five years are as follows (in thousands):

2016	\$	231
2017		177
2018		170
2019		103
2020		<u>105</u>
Total	\$	<u><u>786</u></u>

Note 7 Deposits

The carrying amounts of deposits at December 31, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Demand	\$ 106,454	\$ 96,374
Interest-bearing transaction accounts	116,037	131,324
Savings	7,785	7,389
Time deposits less than \$100,000	5,152	5,220
Time deposits \$100,000 and over	<u>8,730</u>	<u>10,118</u>
Total deposits	<u>\$ 244,158</u>	<u>\$ 250,425</u>

Maturities of time deposits for each of the next five years and in the aggregate thereafter are as follows (in thousands):

2016	\$	8,831
2017		1,766
2018		245
2019		1,478
2020		4
Thereafter		<u>1,558</u>
Total	\$	<u><u>13,882</u></u>

At December 31, 2015, there were no brokered deposits or deposits obtained from customers outside the Corporation's primary market area. At December 31, 2014, there were brokered deposits or deposits obtained from customers outside the Corporation's primary market area which totaled \$220,000.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 8 Long-Term Borrowings

During 2008, the Corporation borrowed \$500,000 from the Federal Home Loan Bank. Interest is assessed at a fixed rate of 4.97%. Interest only payments are due monthly with principal and any unpaid interest due at the maturity date on May 9, 2018. This borrowing is collateralized by investment securities with a carrying amount of \$7,000 at December 31, 2015 and a blanket pledge of eligible loans with a carrying amount of \$15,080,000 at December 31, 2015. The outstanding balance was \$500,000 at December 31, 2015 and 2014. Refer to Note 4 for additional information regarding the pledged investment securities. Refer to Note 13 for additional information regarding the amount available for future borrowings under this line of credit.

On November 15, 2011, the Corporation borrowed \$2,164,000 from a financial institution. The loan proceeds were used to pay-off a \$3,000,000 loan obtained from another financial institution during 2009. Interest on this loan is equal to the Prime rate index. Quarterly principal and interest payments in the amount of \$189,000 were due for eleven consecutive quarters beginning December 31, 2011 with the remaining unpaid principal and interest due at maturity on September 30, 2014. This note was secured by 100% of the outstanding stock of Community First Bank. This loan was paid in full during 2014.

Note 9 Related Party Transactions

During 2015 and 2014, the Corporation had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows (in thousands):

	Balance Beginning of Year	Additions	Amounts Collected	Balance End of Year
For the year ended:				
December 31, 2015	\$ -	\$ 73	\$ (73)	\$ -
December 31, 2014	\$ -	\$ 64	\$ (64)	\$ -

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of \$21,004,000 and \$37,643,000 at December 31, 2015 and 2014, respectively.

The Corporation has entered into lease agreements with related parties for various locations. Refer to Note 6 for additional information regarding these lease agreements.

Effective January 1, 2016, a merger took place between the Corporation, HFG Holdings, LLC and Haberling Financial Group, Inc, a corporation that a director is a principal shareholder. Refer to Note 20 for additional information regarding this merger.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 10 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not reflected in the financial statements. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheets.

Financial instruments whose contract amount represents credit risk were as follows (in thousands):

	2015	2014
Commitments to extend credit	\$ 24,894	\$ 22,899
Standby letters of credit	-	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation's experience has been that approximately 70% of loan commitments are drawn upon by customers. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Corporation has guaranteed credit cards issued by another financial institution to some of the Corporation's customers. The Corporation has exposure to credit loss in the event that there is nonperformance by their customer.

The Corporation has not been required to perform on any financial guarantees during 2015 or 2014. The Corporation has not incurred any material losses on its commitments in 2015 or 2014.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 11 Compensated Absences

Employees of the Corporation are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 12 Commitments and Contingent Liabilities

The Corporation is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Corporation.

The Bank participates in the Washington State Public Depository program. In February 2009, new standards were adopted which require institutions to collateralize uninsured public deposits at 100 percent. At December 31, 2015 and 2014, the Corporation had pledged investment securities with a carrying amount of \$8,140,000 and \$8,372,000, respectively, to secure public deposits. Refer to Note 4 for additional information.

Note 13 Lines of Credit

The Corporation has established an unsecured line of credit in the amount of \$3,000,000 for overnight purchase of federal funds. This line may be cancelled without prior notification. There were no outstanding balances on this line of credit at December 31, 2015 and 2014.

The Corporation also has a credit line with the Federal Home Loan Bank of Des Moines totaling 35% of assets which had available borrowings of \$92,889,000 at December 31, 2015 assuming assets are pledged accordingly. There were outstanding balances on this line of credit totaling \$500,000 at December 31, 2015 and 2014. Refer to Note 8 for additional information on this line of credit.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 14 Concentration of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At December 31, 2015, the Corporation had uninsured deposits in other financial institutions totaling \$1,501,000. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation has credit risk exposure, including off-balance-sheet credit risk exposure, as disclosed in Notes 5 and 10. Most of the Corporation's business activity is with customers located in the state of Washington. The ultimate collectibility of a substantial portion of the loan portfolio is susceptible to changes in economic and market conditions in the region. The Corporation generally requires collateral on all real estate loans and typically maintains loan-to-value ratios of no greater than 75% to 80%. Loans are generally limited, by state banking regulations, to 20% of the Bank's shareholder's equity, excluding accumulated other comprehensive income (loss). The Corporation, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of \$3,000,000.

The contractual amounts of credit related financial instruments such as commitments to extend credit and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. Letters of credit are granted primarily to commercial borrowers.

Note 15 Stock Compensation Plans

During 2009, the Board of Directors adopted the "2009 Employee Stock Option and Equity Compensation Plan". This Plan was approved at the 2009 annual shareholders' meeting. This Plan provides for stock awards in the form of stock options, restricted stock grants, restricted stock units and stock appreciation rights. The Plan allows for both incentive and non-qualified stock options to be granted. The Corporation may grant up to 65,000 shares under this Plan to certain key employees and directors. At December 31, 2015, there were 37,345 shares available for grant under this Plan. The exercise price of options and the value of other awards is equal to the fair market value of the Corporation's stock on the date of grant. The maximum term of stock options is ten years. Options are 100% vested five years after the grant date. The Corporation has entered into "Restricted Stock Award Agreements" with certain of its executive officers. These awards vest ratably over a period of three years from the date of grant.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 15 Stock Compensation Plans, continued

A summary of the Corporation's restricted stock awards and activity for the years ending December 31, 2015 and 2014 is presented below:

	Restricted Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1, 2014	1,187	\$ 55.59
Granted	-	-
Forfeited	-	-
Vested	(641)	54.40
Non-vested at December 31, 2014	546	\$ 56.98
Outstanding at January 1, 2015	546	\$ 56.98
Granted	-	-
Forfeited	-	-
Vested	(336)	56.53
Non-vested at December 31, 2015	210	\$ 57.70

Under the provisions of the Plan, grantees of restricted stock awards have all the rights of a shareholder (including voting, dividend and liquidation rights). Stock compensation expense totaling \$9,000 and \$23,000 was recorded during 2015 and 2014, respectively, relating to restricted stock awards. At December 31, 2015, there was \$7,000 in unrecognized compensation expense relating to these awards that is expected to be recognized over a period of 1.17 years.

During 2013, the Corporation approved a stock grant program for directors' compensation. Under this program, the equivalent number of shares of the Corporation's common stock will be issued at the beginning of each year based on the prior year's stock compensation expense divided by the fair value of the Corporation's common stock. During 2015 and 2014, stock compensation expense totaling \$59,000 and \$49,000, respectively, was recorded relating to directors' compensation. During 2015 and 2014, 914 and 899 shares, respectively, were issued to directors relating to this program.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 15 Stock Compensation Plans, continued

Prior to the adoption of this Plan, the Corporation had two share-based compensation plans. Under these two stock option plans, the Corporation may grant both incentive and non-qualified options for up to 56,745 shares of its common stock to certain key employees and directors. The exercise price of each option equals the fair market value of the Corporation's stock on the date of grant, and an option's maximum term is ten years. Options vest 20% annually for five years. These plans were terminated with the adoption of the "2009 Employee Stock Option and Equity Compensation Plan." The termination of these plans does not affect the terms of any outstanding options under these plans.

The compensation cost that has been charged against income for these plans was \$2,000 and \$1,000 for the years ended December 31, 2015 and 2014, respectively. Since the Corporation made the Subchapter S election effective January 1, 2006, there is no tax benefit recognized in the income statement for share-based compensation arrangements for the years ended December 31, 2015 and 2014.

The Corporation accounts for stock-based awards to employees and directors using the fair value method, in accordance with accounting guidance issued by the FASB. The Corporation uses the Black-Scholes valuation model to estimate the fair value of stock option awards. The following assumptions are used in the Black-Scholes model: expected volatility, expected dividends, expected term and risk-free rate. Expected volatilities are based on the historical volatility of the Corporation's stock and other factors. The Corporation uses historical data to estimate option exercise and employee termination within the model. The expected term of options granted is determined from the output of the option valuation model and management's experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are determined at the date of grant and are not subsequently adjusted for actual. There were no grants of stock options during 2015. The following assumptions were used regarding the 2014 grants of stock options:

	<u>2014</u>
Expected volatility	7.08%
Weighted-average volatility	7.08%
Expected dividends	4.19%
Expected term (in years)	10 yrs
Risk-free rate	1.88%

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 15 Stock Compensation Plans, continued

A summary of option activity under the Plans as of December 31, 2015 and 2014, and changes during the years then ended, are presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding at January 1, 2014	9,000	\$ 44.00	
Granted	14,000	62.00	
Exercised	(1,000)	44.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2014	<u>22,000</u>	<u>\$ 55.45</u>	<u>7.80</u>
Vested or expected to vest at December 31, 2014	<u>22,000</u>	<u>\$ 55.45</u>	<u>7.80</u>
Exercisable at December 31, 2014	<u>8,000</u>	<u>\$ 44.00</u>	<u>4.25</u>
Outstanding at January 1, 2015	22,000	\$ 55.45	
Granted	-	-	
Exercised	(1,300)	44.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2015	<u>20,700</u>	<u>\$ 56.17</u>	<u>7.03</u>
Vested or expected to vest at December 31, 2015	<u>20,700</u>	<u>\$ 56.17</u>	<u>7.03</u>
Exercisable at December 31, 2015	<u>9,500</u>	<u>\$ 49.31</u>	<u>4.90</u>

During 2015, there were no options granted. During 2014, there were 14,000 options granted. The proceeds from options exercised were \$57,000 and \$44,000 in 2015 and 2014, respectively.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2015, and changes during the year then ended, is presented below:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Nonvested at January 1, 2015	14,000	\$.81
Granted	-	-
Vested	(2,800)	.81
Forfeited	-	-
Nonvested at December 31, 2015	<u>11,200</u>	<u>\$.81</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 15 Stock Compensation Plans, continued

As of December 31, 2015, there was \$7,000 of total unrecognized compensation cost related to nonvested shares of stock options granted under the Plans. That cost is expected to be recognized over a weighted-average period of 3.75 years.

Note 16 Employee Benefit Plan

The Corporation established a KSOP plan in 2005 which has a 401(k) component and an ESOP component. The Corporation has the option to make discretionary matching contributions to this plan. Beginning in 2008 through 2013, the Corporation matched 50% of employee contributions to the 401(k) component of the plan up to a maximum match of \$1,500. Beginning in 2014, the Corporation matched 100% of the first 3% plus 50% of the next 2% of employee contributions to the 401(k) component of the plan up to a maximum match of \$3,000. The Corporation's discretionary contributions for the years ended December 31, 2015 and 2014 were \$72,000 and \$75,000, respectively. At December 31, 2015 and 2014, the ESOP component of this plan held 32,598 and 30,985 shares of the Corporation's stock, respectively.

Note 17 Regulatory Matters

Banks are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines 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 the Bank to maintain minimum amounts and ratios of: Total Risk-Based capital, Tier 1 capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Leverage capital, which is Tier 1 capital to adjusted total assets (as defined). Management believes as of December 31, 2015 and 2014 that the Bank meets all capital adequacy requirements to which it is subject.

Community First Bank has been notified by its regulators that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Common Equity Tier 1, Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed on the next page.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 17 Regulatory Matters, continued

Management believes that, as of December 31, 2015, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 25,557	16.30%	\$ 12,545	8.00%	\$ 15,681	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 23,818	15.19%	\$ 9,409	6.00%	\$ 12,545	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 23,818	15.19%	\$ 7,056	4.50%	\$ 10,193	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 23,818	8.88%	\$ 10,724	4.00%	\$ 13,405	5.00%
As of December 31, 2014:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 23,772	15.76%	\$ 12,065	8.00%	\$ 15,081	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 22,122	14.67%	\$ 6,032	4.00%	\$ 9,049	6.00%
Leverage Capital (to Adjusted Total Assets)	\$ 22,122	8.66%	\$ 10,214	4.00%	\$ 12,768	5.00%

Note 18 Fair Value Measurements

The Corporation has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 18 Fair Value Measurements, continued

transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- **Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2 Inputs:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- **Level 3 Inputs:** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 18 Fair Value Measurements, continued

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

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

Other Real Estate Owned: Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 18 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands). At December 31, 2015 and 2014, there were no financial liabilities measured at fair value on a recurring basis.

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2015:				
Available-For-Sale				
U.S. Treasury notes	\$ 12,945	\$ -	\$ -	\$ 12,945
U.S. Government agencies	-	17,923	-	17,923
U.S. Government agency mortgage-backed securities	-	2,433	-	2,433
Collateralized mortgage obligations	-	14,281	-	14,281
Corporate securities	-	496	-	496
Obligations of states and political subdivisions	-	21,187	-	21,187
Totals	<u>\$ 12,945</u>	<u>\$ 56,320</u>	<u>\$ -</u>	<u>\$ 69,265</u>
December 31, 2014:				
Available-For-Sale				
U.S. Treasury notes	\$ 3,986	\$ -	\$ -	\$ 3,986
U.S. Government agencies	-	22,459	-	22,459
U.S. Government agency mortgage-backed securities	-	3,908	-	3,908
Collateralized mortgage obligations	-	16,775	-	16,775
Corporate securities	-	497	-	497
Obligations of states and political subdivisions	-	18,735	-	18,735
Totals	<u>\$ 3,986</u>	<u>\$ 62,374</u>	<u>\$ -</u>	<u>\$ 66,360</u>

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 18 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2015:				
Impaired loans	\$ -	\$ 1,677	\$ -	\$ 1,677
Less specific valuation allowance for possible loan losses	<u>-</u>	<u>(254)</u>	<u>-</u>	<u>(254)</u>
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,423</u>	<u>\$ -</u>	<u>\$ 1,423</u>
December 31, 2014:				
Impaired loans	\$ -	\$ 1,714	\$ -	\$ 1,714
Less specific valuation allowance for possible loan losses	<u>-</u>	<u>(324)</u>	<u>-</u>	<u>(324)</u>
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,390</u>	<u>\$ -</u>	<u>\$ 1,390</u>

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, are remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2015 and 2014, there was no other real estate owned by the Corporation.

During 2015 and 2014, there were no charge-offs recorded at the time of foreclosure. During 2015 and 2014, there were no writedowns recorded subsequent to foreclosure. Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 19 Fair Values of Financial Instruments

The estimated fair values of the Corporation's financial instruments that are reported in the Corporation's consolidated balance sheets at December 31, 2015 and 2014 are as follows (in thousands):

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 4,907	\$ 4,907	\$ 1,331	\$ 1,331
Interest-bearing deposits	41,380	41,894	59,446	60,144
Investment securities	69,265	69,265	66,360	66,360
FHLB stock	349	349	209	209
Loans held-for-sale	371	371	583	583
Loans, net	144,668	143,752	137,961	137,477
Bank-owned life insurance	4,293	4,293	4,172	4,172
Accrued interest receivable	802	802	814	814
Financial liabilities:				
Deposits	244,158	222,249	250,425	224,384
FHLB advances	500	500	500	500
Accrued interest payable	33	33	42	42

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions with the exception of loans held-for-sale which are included with loans in the consolidated balance sheets.

Note 20 Subsequent Event

Effective January 1, 2016, HFG Trust, LLC, a wholly owned subsidiary of the Bank was established. Effective January 1, 2016, HFG Holdings, LLC, a merger subsidiary of the Corporation, and Haberling Financial Group, Inc. merged. After the merger, HFG Holdings, LLC was merged into HFG Trust, LLC. Pursuant to the merger agreement, 41,600 shares of common stock in the Corporation were issued to shareholders of Haberling Financial Group, Inc. In addition, the Corporation entered into employment agreements with key employees of Haberling Financial Group, Inc. which provides for payouts of 50% of the profits of HFG Trust, LLC each year.

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2015
ASSETS				
Cash and due from banks	\$ -	\$ 4,907	\$ -	\$ 4,907
Interest-bearing deposits in financial institutions maturing in less than three months	-	26,732	-	26,732
Total cash and cash equivalents	-	31,639	-	31,639
Interest-bearing deposits in financial institutions maturing in more than three months	-	14,648	-	14,648
Investment in subsidiary	24,290	-	(24,290)	-
Investment securities	-	69,265	-	69,265
Federal Home Loan Bank stock, at cost	-	349	-	349
Loans, net of deferred loan fees and allowance for loan losses	-	145,039	-	145,039
Premises and equipment, net of accumulated depreciation	-	2,822	-	2,822
Bank-owned life insurance	-	4,293	-	4,293
Accrued interest receivable	-	802	-	802
Other assets	-	300	-	300
Total Assets	\$ 24,290	\$ 269,157	\$ (24,290)	\$ 269,157
LIABILITIES				
Deposits	\$ -	\$ 244,158	\$ -	\$ 244,158
Advances from Federal Home Loan Bank	-	500	-	500
Other liabilities:				
Accrued interest payable	-	33	-	33
Accrued expenses and other liabilities	-	176	-	176
Total other liabilities	-	209	-	209
Total Liabilities	-	244,867	-	244,867
SHAREHOLDERS' EQUITY				
Common stock, \$1 par value:				
Authorized - 1,000,000 shares				
Issued and outstanding - 454,495 shares	455	401	(401)	455
Additional paid-in capital	11,035	11,896	(11,896)	11,035
Retained earnings	12,328	11,521	(11,521)	12,328
Accumulated other comprehensive income	472	472	(472)	472
Total Shareholders' Equity	24,290	24,290	(24,290)	24,290
Total Liabilities and Shareholders' Equity	\$ 24,290	\$ 269,157	\$ (24,290)	\$ 269,157

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2015
Interest income				
Interest and fees on loans	\$ -	\$ 6,998	\$ -	\$ 6,998
Interest on investment securities	-	1,149	-	1,149
Interest on federal funds sold and interest-bearing deposits with financial institutions	-	227	-	227
Total interest income	-	8,374	-	8,374
Interest expense				
On deposits	-	371	-	371
On borrowed funds	-	25	-	25
Total interest expense	-	396	-	396
Net interest income	-	7,978	-	7,978
Provision for loan losses	-	45	-	45
Net interest income after provision for loan losses	-	7,933	-	7,933
Non-interest income				
Service charges and fees on deposit accounts	-	339	-	339
Equity in undistributed income of subsidiary	1,625	-	(1,625)	-
Dividend income from subsidiary	1,188	-	(1,188)	-
Mortgage broker fees	-	26	-	26
Earnings on bank-owned life insurance	-	121	-	121
Net gain on sales of loans	-	197	-	197
Other	-	395	-	395
Total non-interest income	2,813	1,078	(2,813)	1,078
Non-interest expense				
Salaries and employee benefits	-	3,593	-	3,593
Occupancy	-	450	-	450
Furniture and equipment	-	195	-	195
Data processing	-	321	-	321
Professional fees	-	310	-	310
Other operating expenses	1	1,329	-	1,330
Total non-interest expense	1	6,198	-	6,199
Net Income	\$ 2,812	\$ 2,813	\$ (2,813)	\$ 2,812

See Independent Auditor's Report.

**COMMUNITY FIRST BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 4,907	\$ 1,331
Interest-bearing deposits in financial institutions maturing in less than three months	26,732	41,102
Total cash and cash equivalents	31,639	42,433
Interest-bearing deposits in financial institutions maturing in more than three months	14,648	18,344
Investment securities	69,265	66,360
Federal Home Loan Bank stock, at cost	349	209
Loans, net of deferred loans fees and allowance for loan losses	145,039	138,544
Premises and equipment, net of accumulated depreciation	2,822	2,782
Bank-owned life insurance	4,293	4,172
Accrued interest receivable	802	814
Other assets	300	164
Total Assets	<u><u>\$ 269,157</u></u>	<u><u>\$ 273,822</u></u>
LIABILITIES		
Deposits	\$ 244,158	\$ 250,450
Advances from Federal Home Loan Bank	500	500
Other liabilities:		
Accrued interest payable	33	42
Accrued expenses and other liabilities	176	137
Total other liabilities	209	179
Total Liabilities	<u>244,867</u>	<u>251,129</u>
SHAREHOLDER'S EQUITY		
Common stock, \$1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 400,630 shares	401	401
Additional paid-in capital	11,896	11,825
Retained earnings	11,521	9,896
Accumulated other comprehensive income	472	571
Total Shareholder's Equity	<u>24,290</u>	<u>22,693</u>
Total Liabilities and Shareholder's Equity	<u><u>\$ 269,157</u></u>	<u><u>\$ 273,822</u></u>

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
Interest income		
Interest and fees on loans	\$ 6,998	\$ 7,035
Interest on investment securities	1,149	1,082
Interest on federal funds sold and interest-bearing deposits with financial institutions	227	218
Total interest income	8,374	8,335
Interest expense		
On deposits	371	385
On borrowed funds	25	25
Total interest expense	396	410
Net interest income	7,978	7,925
Provision for loan losses	45	-
Net interest income after provision for loan losses	7,933	7,925
Non-interest income		
Service charges and fees on deposit accounts	339	368
Mortgage broker fees	26	42
Earnings on bank-owned life insurance	121	124
Net gain on sales of loans	197	287
Other	395	370
Total non-interest income	1,078	1,191
Non-interest expense		
Salaries and employee benefits	3,593	3,940
Occupancy	450	430
Furniture and equipment	195	151
Data processing	321	295
Professional fees	310	204
Amortization of goodwill	-	489
Other operating expenses	1,329	1,017
Total non-interest expense	6,198	6,526
Net Income	\$ 2,813	\$ 2,590

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2014	\$ 401	\$ 11,752	\$ 9,116	\$ 215	\$ 21,484
Stock option compensation expense		1			1
Restricted stock compensation expense		23			23
Directors stock compensation expense		49			49
Net income for the year ended December 31, 2014			2,590		2,590
Unrealized gain on available-for- sale securities				356	356
Dividends paid - \$4.52 per share			(1,810)		(1,810)
Balance at December 31, 2014	401	11,825	9,896	571	22,693
Capital injection from parent company		1			1
Stock option compensation expense		2			2
Restricted stock compensation expense		9			9
Directors stock compensation expense		59			59
Net income for the year ended December 31, 2015			2,813		2,813
Unrealized loss on available-for- sale securities				(99)	(99)
Dividends paid - \$2.97 per share			(1,188)		(1,188)
Balance at December 31, 2015	<u>\$ 401</u>	<u>\$ 11,896</u>	<u>\$ 11,521</u>	<u>\$ 472</u>	<u>\$ 24,290</u>

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,813	\$ 2,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	303	292
Provision for loan losses	45	-
Net amortization on investment securities	601	608
Stock option compensation expense	2	1
Restricted stock compensation expense	9	23
Directors stock compensation expense	59	49
Earnings on bank-owned life insurance	(121)	(124)
Originations of loans held-for-sale	(9,506)	(13,814)
Proceeds from sales of loans held-for-sale	9,915	13,518
Net gain on sales of loans	(197)	(287)
Amortization of goodwill	-	489
Increase in net deferred loan fees	93	-
(Increase) decrease in accrued interest receivable	12	(81)
Increase (decrease) in accrued interest payable	(9)	2
Other	(131)	(121)
Total adjustments	1,075	555
Net Cash Provided by Operating Activities	3,888	3,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in interest-bearing deposits in financial institutions maturing in more than three months	3,696	(237)
Purchases of investment securities:		
Available-for-sale	(17,397)	(23,973)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	8,973	12,565
Proceeds from principal paydowns on investment securities:		
Available-for-sale	4,819	3,078
Purchases of FHLB stock	(146)	-
Proceeds from redemptions of FHLB stock	6	8
Net increase in loans made to customers	(6,845)	(11,535)
Purchases of premises and equipment	(309)	(177)
Proceeds from disposals of premises and equipment	-	3
Net Cash Used by Investing Activities	\$ (7,203)	\$ (20,268)

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in Thousands)

	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings	\$ (4,836)	\$ 29,262
Net increase (decrease) in time deposits	(1,456)	85
Capital injection from parent company	1	-
Dividends paid	(1,188)	(1,810)
Net Cash Provided (Used) by Financing Activities	(7,479)	27,537
Net increase (decrease) in cash and cash equivalents	(10,794)	10,414
Cash and cash equivalents at beginning of year	42,433	32,019
Cash and cash equivalents at end of year	\$ 31,639	\$ 42,433
 SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	\$ 405	\$ 408