COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY

KENNEWICK, WA

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2014 AND 2013

C O N T E N T S

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.

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INDEPENDENT AUDITOR'S REPORT

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, 2014 and 2013 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, 2014 and 2013 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 31, 2015

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 3	$ 1,331	$ 1,296
Interest-bearing deposits in financial institutions maturing in less than three months	41,102	30,723
Total cash and cash equivalents	42,433	32,019
Interest-bearing deposits in financial institutions maturing in more than three months	18,344	18,107
Investment securities - Note 4	66,360	58,282
Federal Home Loan Bank stock, at cost - Note 2	209	217
Loans, net of allowance for loan losses - Note 5	138,544	126,426
Bank premises and equipment, net of accumulated depreciation - Note 6	2,782	2,835
Bank-owned life insurance	4,172	4,048
Accrued interest receivable	814	733
Goodwill - Note 2	-	489
Other assets	164	189
Total Assets	$ 273,822	$ 243,345
LIABILITIES		
Deposits - Note 7	$ 250,425	$ 221,078
Advances from Federal Home Loan Bank - Note 8	500	500
Other long-term borrowings - Note 8	-	741
Other liabilities:		
Accrued interest payable	42	47
Accrued expenses and other liabilities	137	218
Total other liabilities	179	265
Total Liabilities	251,104	222,584
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 - 450,668 and 444,620 shares at December 31, 2014 and 2013, respectively	451	445
Additional paid-in capital	10,820	10,458
Retained earnings	10,876	9,643
Accumulated other comprehensive income	571	215
Total Shareholders' Equity	22,718	20,761
Total Liabilities and Shareholders' Equity	$ 273,822	$ 243,345

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, 2014 AND 2013
(Dollars in Thousands, except for per share amounts)

	2014	2013
Interest income		
Interest and fees on loans	$ 7,035	$ 7,155
Interest on investment securities	1,082	553
Interest on federal funds sold and interest-bearing deposits with financial institutions	218	233
Total interest income	8,335	7,941
Interest expense		
On deposits	385	370
On borrowed funds	34	58
Total interest expense	419	428
Net interest income	7,916	7,513
Provision for loan losses - Note 5	-	60
Net interest income after provision for loan losses	7,916	7,453
Non-interest income		
Service charges and fees on deposit accounts	368	359
Mortgage broker fees	42	75
Earnings on bank-owned life insurance	124	129
Gain on sales of other real estate owned	-	16
Loss on disposals of premises and equipment	-	(1)
Gain on sales of investment securities (includes $5 accumulated other comprehensive income reclassifications for realized gains on available-for-sale securities)	-	7
Net gain on sales of loans	287	290
Other	370	379
Total non-interest income	1,191	1,254
Non-interest expense		
Salaries and employee benefits	3,940	3,788
Occupancy	430	412
Furniture and equipment	151	152
Data processing	295	312
Professional fees	204	203
Amortization of goodwill - Note 2	489	-
Other operating expenses	1,017	939
Total non-interest expense	6,526	5,806
Net Income	$ 2,581	$ 2,901
Basic earnings per share of common stock	$ 5.74	$ 6.53
Average shares of common stock outstanding	449,367	444,007

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, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
Net Income	$ 2,581	$ 2,901
Other Comprehensive Income (Loss)		
Securities available-for-sale:		
Reclassification adjustment for sales during the year	-	5
Change in net unrealized gain during the year	356	(406)
Other comprehensive income (loss)	356	(401)
Comprehensive Income	$ 2,937	$ 2,500

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, 2014 AND 2013
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	$ 443	$ 10,326	$ 8,074	$ 616	$ 19,459
Exercise of stock options	1	43			44
Stock option compensation expense		1			1
Restricted stock compensation expense	1	34			35
Directors stock compensation expense		54			54
Comprehensive income (loss) for the year ended December 31, 2013			2,901	(401)	2,500
Dividends paid - $3.00 per share			(1,332)		(1,332)
Balance at December 31, 2013	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

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, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,581	$ 2,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	292	297
Provision for loan losses	-	60
Net amortization on investment securities	608	473
Stock option compensation expense	1	1
Restricted stock compensation expense	23	35
Directors stock compensation expense	49	54
Earnings on bank-owned life insurance	(124)	(129)
Gain on sales of other real estate owned	-	(16)
Loss on disposals of premises and equipment	-	1
Gain on sales of investment securities	-	(7)
Originations of loans held-for-sale	(13,814)	(15,020)
Proceeds from sales of loans held-for-sale	13,518	16,084
Net gain on sales of loans	(287)	(290)
Amortization of goodwill	489	-
Increase in accrued interest receivable	(81)	(65)
Decrease in accrued interest payable	(5)	(17)
Other	(121)	101
Total adjustments	548	1,562
Net Cash Provided by Operating Activities	3,129	4,463
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in interest-bearing deposits in financial institutions maturing in more than three months	(237)	162
Purchases of investment securities:		
Available-for-sale	(23,973)	(33,096)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	12,565	4,000
Proceeds from sales of investment securities:		
Available-for-sale	-	609
Proceeds from principal paydowns on investment securities:		
Available-for-sale	3,078	1,910
Proceeds from redemptions of FHLB stock	8	8
Net (increase) decrease in loans made to customers	(11,535)	2,022
Purchases of premises and equipment	(177)	(56)
Proceeds from disposals of premises and equipment	3	-
Proceeds from sales of other real estate owned	-	291
Net Cash Used by Investing Activities	$ (20,268)	$ (24,150)

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, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 29,262	$ 18,883
Net increase (decrease) in time deposits	85	(2,532)
Principal payments on other long-term borrowings	(741)	(718)
Proceeds from sales of common stock	251	-
Proceeds from stock options exercised	44	44
Dividends paid	(1,348)	(1,332)
Net Cash Provided by Financing Activities	27,553	14,345
Net increase (decrease) in cash and cash equivalents	10,414	(5,342)
Cash and cash equivalents at beginning of year	32,019	37,361
Cash and cash equivalents at end of year	$ 42,433	$ 32,019
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 424	$ 445

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.

<u>Principles of Consolidation</u>

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

<u>Nature of Operations</u>

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.

<u>Estimates</u>

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.

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 Companies report 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.

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, 2014 and 2013, the Corporation had $209,000 and $217,000, 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 2014 and 2013, 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 2014 and 2013, there were no losses incurred regarding these representations and warranties.

Loans

Loans are stated at the principal amount outstanding less 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.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Bank Premises and Equipment

Bank 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 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 and 2013, no impairment loss was recognized; however, 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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Reserve for Unfunded Commitments

During 2011, the Corporation 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, 2014 and 2013, 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, 2011 through December 31, 2014 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 2014 or 2013.

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 $73,000 and $90,000 lower for the years ended December 31, 2014 and 2013, respectively.

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.

Note 2 Summary of Significant Accounting Policies, continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $49,000 and $40,000 were expensed during 2014 and 2013, 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.

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.

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

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 and Other Long-Term Borrowings*:** The fair values of FHLB advances and other long-term borrowings 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 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, 2014 and 2013, the book value per share is $50.41 and $46.69, respectively. Tangible book value per share is calculated by dividing the net amount of total shareholders' equity less goodwill shown on the consolidated balance sheets by the number of shares outstanding as of year-end. At December 31, 2014 and 2013, the tangible book value per share is $50.41 and $45.59, 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, 2014 through March 31, 2015, the date the financial statements were available to be issued. The Corporation did not note any subsequent events requiring disclosure or adjustment to these consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this update require entities to report significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles to be reclassified in its entirety to net income. For all other amounts, an entity is required to cross reference other disclosures that provide additional detail about these amounts. The amendments are effective during the interim and annual periods beginning after December 15, 2013. The Corporation adopted this guidance effective January 1, 2014 and it did not have a significant impact on the consolidated financial statements.

In January 2014, the FASB issued ASU No. 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 No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* This guidance amended previous 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. The amendment will be effective for annual reporting periods beginning after December 31, 2014 and interim reporting periods after December 31, 2015, and is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This guidance provides 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 judgment 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. The new authoritative guidance will be effective for annual reporting periods ending after December 15, 2017, and interim reporting periods beginning after December 31, 2018; however, earlier implementation is allowed (within certain parameters). The Corporation has no plans to adopt the new authoritative guidance early and the guidance is not expected to have a significant impact to 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. The amendment will be effective for annual reporting periods beginning after December 31, 2014 and interim reporting periods after December 31, 2015, and is not expected to have a significant impact on the Corporation's consolidated financial statements.

In August 2014, the FASB issued ASU No. 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. The amendments will become effective for annual reporting periods ending after December 15, 2015 and interim reporting periods beginning after December 31, 2015, and is not expected to have a significant impact on the Corporation's consolidated financial statements.

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, 2014 and 2013 was $5,361,000 and $5,251,000, respectively.

Note 4 Investment Securities

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 values of investment securities at December 31, 2013 are as follows (in thousands):

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies	$ 21,577	$ 108	$ (12)	$ 21,673
U.S. Government agency mortgage-backed securities	2,399	19	(30)	2,388
Collateralized mortgage obligations	14,233	171	(17)	14,387
Corporate securities	500	-	(3)	497
Obligations of state and political subdivisions	19,358	158	(179)	19,337
Total available-for-sale securities	$ 58,067	$ 456	$ (241)	$ 58,282

The balance sheet as of December 31, 2013 reflects the fair value of available-for-sale securities in the amount of $58,282,000. A net unrealized gain of $215,000 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

Note 4 Investment Securities, continued

The amortized cost and fair value of debt securities at December 31, 2014, 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	$ 355	$ 356
After one year through five years	34,465	34,625
After five years through ten years	9,763	9,976
After ten years	713	720
	45,296	45,677
U.S. Government agency mortgage-backed securities	3,898	3,908
Collateralized mortgage obligations	16,595	16,775
Totals	$ 65,789	$ 66,360

Investment securities with fair market values of $8,492,000 and $8,566,000 at December 31, 2014 and 2013, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The Corporation received proceeds totaling $609,000 from sales of investment securities during 2013. These sales resulted in gross realized gains of $7,000. There were no sales of investment securities during 2014. During 2014 and 2013, the Corporation received proceeds totaling $8,000 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.

Note 4 Investment Securities, continued

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013, 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, 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)
December 31, 2013:						
Federal agencies	$ 9,160	$ (59)	$ -	$ -	$ 9,160	$ (59)
Corporate securities	497	(3)	-	-	497	(3)
Municipals	7,113	(111)	2,533	(68)	9,646	(179)
Total	$ 16,770	$ (173)	$ 2,533	$ (68)	$ 19,303	$ (241)

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, 2014, the 25 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.

Note 5 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Commercial, agricultural and industrial loans	$ 23,722	$ 21,888
Real estate (RE) loans:		
Construction, land and land development	13,632	16,107
Residential 1-4 family	17,784	16,169
Commercial RE	82,442	71,515
Consumer loans	2,528	2,280
Overdrafts	36	82
	140,144	128,041
Less: Allowance for loan losses	(1,600)	(1,615)
Loans, Net	$ 138,544	$ 126,426

At December 31, 2014, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling $583,000. At December 31, 2013, there were no mortgage loans held-for-sale.

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

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2013 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	2013 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 166	$ 95	$ 229	$ 373	$ 56	$ 589	$ 1,508
Provisions, charged (credited) to income	4	(36)	(135)	(47)	(140)	414	60
	170	59	94	326	(84)	1,003	1,568
Loans charged-off	(142)	-	-	-	(3)	-	(145)
Recoveries of loans previously charged-off	53	-	-	-	139	-	192
Net (charge-offs) recoveries	(89)	-	-	-	136	-	47
Balance, end of year	$ 81	$ 59	$ 94	$ 326	$ 52	$ 1,003	$ 1,615
Ending balance: Individually evaluated for impairment	$ 25	$ -	$ 31	$ 1	$ 4	$ -	$ 61
Ending balance: Collectively evaluated for impairment	56	59	63	325	48	1,003	1,554
Balance, end of year	$ 81	$ 59	$ 94	$ 326	$ 52	$ 1,003	$ 1,615
Loans:							
Ending balance: Individually evaluated for impairment	$ 134	$ -	$ 1,066	$ 827	$ 58		$ 2,085
Ending balance: Collectively evaluated for impairment	21,754	16,107	15,103	70,688	2,304		125,956
Ending balance total loans	$ 21,888	$ 16,107	$ 16,169	$ 71,515	$ 2,362		$ 128,041

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, 2014 and 2013 are as follows (in thousands):

	Pass	Other Assets Especially Mentioned	Sub-Standard	Doubtful	Total
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	2,505	15	44	-	2,564
Total Loans	$ 133,542	$ 1,703	$ 4,899	$ -	$ 140,144
December 31, 2013:					
Commercial, agricultural and industrial loans	$ 20,865	$ 701	$ 322	$ -	$ 21,888
Real estate (RE) loans:					
Construction, land and land development	15,241	795	71	-	16,107
Residential 1-4 family	15,055	412	702	-	16,169
Commercial RE	67,256	1,081	3,178	-	71,515
Consumer and other loans	2,291	13	58	-	2,362
Total Loans	$ 120,708	$ 3,002	$ 4,331	$ -	$ 128,041

Note 5 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Real estate (RE) loans:		
Commercial RE	$ 302	$ 380
Consumer and other loans	1	4
Total nonaccrual loans	$ 303	$ 384

At December 31, 2014 and 2013, a summary of information pertaining to impaired loans is as follows (in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
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	45	-	45	45	10	51	2
Total	$ 1,847	$ -	$ 1,714	$ 1,714	$ 324	$ 1,900	$ 76
December 31, 2013:							
Commercial, agriculture and industrial loans	$ 134	$ -	$ 134	$ 134	$ 25	$ 84	$ 9
Real estate (RE) loans:							
Residential 1-4 family	1,066	-	1,066	1,066	31	874	54
Commercial RE	941	-	827	827	1	847	32
Consumer and other loans	58	-	58	58	4	29	3
Total	$ 2,199	$ -	$ 2,085	$ 2,085	$ 61	$ 1,834	$ 98

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

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 2014 and 2013 are set forth in the following table (in thousands, except for number of constracts):

December 31, 2014:	**Number of Contracts**	**Balance at Restructuring Date**	**Balance at December 31, 2014**
Real estate (RE) loans:			
Residential 1-4 family	1	$ 359	$ 219
Total troubled debt restructurings	1	$ 359	$ 219

December 31, 2013:	**Number of Contracts**	**Balance at Restructuring Date**	**Balance at December 31, 2013**
Commercial, agricultural and industrial loans	2	$ 292	$ 133
Real estate (RE) loans:			
Residential 1-4 family	1	400	400
Consumer loans	6	95	58
Total troubled debt restructurings	9	$ 787	$ 591

Concessions granted on these loans include reduction of interest rates and restructuring payments to match borrower's cash flow. At December 31, 2014 and 2013, there were two consumer loans totaling $1,000 and $4,000, respectively, which were on nonaccrual. At December 31, 2014 and 2013, all other restructured loans were paying in accordance to the restructured terms.

Note 5 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2014 and 2013 (in thousands):

December 31, 2014:	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
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	$ -
December 31, 2013:						
Commercial, agricultural and industrial loans	$ 130	$ -	$ 130	$ 21,758	$ 21,888	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	16,107	16,107	-
Residential 1-4 family	-	-	-	16,169	16,169	-
Commercial RE	278	-	278	71,237	71,515	-
Consumer and other loans	-	-	-	2,362	2,362	-
Total	$ 408	$ -	$ 408	$ 127,633	$ 128,041	$ -

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.

Note 6 Bank Premises and Equipment

The investment in bank premises and equipment at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Land	$ 449	$ 452
Buildings	2,536	2,536
Leasehold improvements	462	442
Furniture and equipment	1,227	1,181
	4,674	4,611
Less accumulated depreciation and amortization	(1,892)	(1,776)
Bank premises and equipment, net	$ 2,782	$ 2,835

Depreciation and amortization on bank premises and equipment charged to expense totaled $227,000 and $235,000 for the years ended December 31, 2014 and 2013, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled $65,000 and $62,000 for the years ended December 31, 2014 and 2013, 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. 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 will expire December 31, 2015.

The Corporation recorded lease expense in the amount of $152,000 and $154,000 for the years ended December 31, 2014 and 2013, respectively. Included in the lease expense were amounts paid to a related party in the amount of $51,000 for the years ended December 31, 2014 and 2013.

Note 6 Bank Premises and Equipment, continued

The minimum payments under the land and branch leases required for the next five years are as follows (in thousands):

2015	$	146
2016		54
2017		9
2018		-
2019		-
Total	$	209

The land lease contains renewal clauses from five to twenty years and escalation clauses based on increases in the Consumer Price Index. The main branch lease provides for increases beginning with the fourth year which are specified within the lease agreement.

Note 7 Deposits

The carrying amounts of deposits at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Demand	$ 96,374	$ 86,716
Interest-bearing transaction accounts	131,324	111,799
Savings	7,389	7,310
Time deposits less than $100,000	5,220	5,680
Time deposits $100,000 and over	10,118	9,573
Total deposits	$ 250,425	$ 221,078

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

2015	$	9,916
2016		1,709
2017		463
2018		227
2019		1,465
Thereafter		1,558
Total	$	15,338

At December 31, 2014, there were brokered deposits or deposits obtained from customers outside the Corporation's primary market area which totaled $220,000. At December 31, 2013, there were no brokered deposits or deposits obtained from customers outside the Corporation's primary market area.

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 $17,000 at December 31, 2014 and a blanket pledge of eligible loans with a carrying amount of $13,068,000 at December 31, 2014. The outstanding balance was $500,000 at December 31, 2014 and 2013. 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. The interest rate on this loan was 3.25% at December 31, 2013. This loan was paid in full during 2014. The unpaid principal balance on this loan was $741,000 at December 31, 2013.

Note 9 Related Party Transactions

During 2014 and 2013, 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, 2014	$ -	$ 64	$ (64)	$ -
December 31, 2013	$ -	$ 65	$ (65)	$ -

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of $37,643,000 and $26,718,000 at December 31, 2014 and 2013, respectively.

The Corporation has entered into a lease agreement with a related party for the land and sign at its main branch. Refer to Note 6 for additional information regarding this lease agreement.

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):

	2014	2013
Commitments to extend credit	$ 22,899	$ 29,624
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 2014 or 2013. The Corporation has not incurred any material losses on its commitments in 2014 or 2013.

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. Prior to February 2009, financial institutions that participated in this program were part of the collateral pool that was established to protect public deposits. As a participating institution, the Corporation was responsible for its pro rata share of restoring the public deposit funds for any uninsured public deposits held in a failed financial institution. In February 2009, new standards were adopted which require institutions to collateralize uninsured public deposits at 100 percent. At December 31, 2014 and 2013, the Corporation had pledged investment securities with a carrying amount of $8,372,000 and $8,368,000, 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, 2014 and 2013.

The Corporation also has a credit line with the Federal Home Loan Bank of Seattle totaling 25% of assets which had available borrowings of $61,303,000 at December 31, 2014 assuming assets are pledged accordingly. There were outstanding balances on this line of credit totaling $500,000 at December 31, 2014 and 2013. Refer to Note 8 for additional information on this line of credit.

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, 2014, the Corporation had uninsured deposits in other financial institutions totaling $750,000. 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, 2014, 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. During 2013, the Corporation 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.

Note 15 Stock Compensation Plans, continued

A summary of the Corporation's restricted stock awards and activity for the years ending December 31, 2014 and 2013 is presented below:

	Restricted Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2013	1,544	$ 53.02
Granted	421	57.70
Forfeited	-	-
Vested	(778)	51.64
Non-vested at December 31, 2013	1,187	$ 55.59
Outstanding at January 1, 2014	1,187	$ 55.59
Granted	-	-
Forfeited	-	-
Vested	(641)	54.40
Non-vested at December 31, 2014	546	$ 56.98

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 $23,000 and $35,000 was recorded during 2014 and 2013, respectively, relating to restricted stock awards. At December 31, 2014, there was $15,000 in unrecognized compensation expense relating to these awards that is expected to be recognized over a period of 2.25 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 2014 and 2013, stock compensation expense totaling $49,000 and $54,000 was recorded relating to directors' compensation. During 2014, 899 shares were issued to directors relating to this program. During 2013, there were no shares issued to directors relating to this program.

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 $1,000 for the years ended December 31, 2014 and 2013. 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, 2014 and 2013.

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.

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

Note 15 Stock Compensation Plans, continued

A summary of option activity under the Plans as of December 31, 2014 and 2013, and changes during the years then ended, are presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2013	10,000	$ 44.00	
Granted	-	-	
Exercised	(1,000)	44.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2013	9,000	$ 44.00	5.25
Vested or expected to vest at December 31, 2013	9,000	$ 44.00	5.25
Exercisable at December 31, 2013	7,000	$ 44.00	5.25
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	22,000	$ 55.45	7.80
Vested or expected to vest at December 31, 2014	22,000	$ 55.45	7.80
Exercisable at December 31, 2014	8,000	$ 44.00	4.25

During 2014, there were 14,000 options granted. There were no options granted during 2013. The proceeds from options exercised were $44,000 in 2014 and 2013.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2014, and changes during the year then ended, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	2,000	$ 1.02
Granted	14,000	.81
Vested	(2,000)	1.02
Forfeited	-	-
Nonvested at December 31, 2014	14,000	$ .81

Note 15 Stock Compensation Plans, continued

As of December 31, 2014, there was $9,000 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 4.83 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 50% 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, 2014 and 2013 were $75,000 and $37,000, respectively. At December 31, 2014 and 2013, the ESOP component of this plan held 30,985 and 26,836 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 and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes as of December 31, 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 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.

Note 17 Regulatory Matters, continued

Management believes that, as of December 31, 2014, 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, 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%
Tier 1 Capital (to Adjusted Total Assets)	$ 22,122	8.66%	$ 10,214	4.00%	$ 12,768	5.00%
As of December 31, 2013:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 22,445	15.77%	$ 11,388	8.00%	$ 14,236	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 20,780	14.60%	$ 5,694	4.00%	$ 8,541	6.00%
Tier 1 Capital (to Adjusted Total Assets)	$ 20,780	8.69%	$ 9,567	4.00%	$ 11,959	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 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.

Note 18 Fair Value Measurements, continued

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.

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.

Note 18 Fair Value Measurements, continued

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
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	$ 3,986	$ 62,374	$ -	$ 66,360
December 31, 2013:				
Available-For-Sale				
U.S. Government agencies	$ -	$ 21,673	$ -	$ 21,673
U.S. Government agency mortgage-backed securities	-	2,388	-	2,388
Collateralized mortgage obligations	-	14,387	-	14,387
Corporate securities	-	497	-	497
Obligations of states and political subdivisions	-	19,337	-	19,337
Totals	$ -	$ 58,282	$ -	$ 58,282

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.

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, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2014:				
Impaired loans	$ -	$ 1,714	$ -	$ 1,714
Less specific valuation allowance for possible loan losses	-	(324)	-	(324)
Impaired loans, net	$ -	$ 1,390	$ -	$ 1,390
December 31, 2013:				
Impaired loans	$ -	$ 2,085	$ -	$ 2,085
Less specific valuation allowance for possible loan losses	-	(61)	-	(61)
Impaired loans, net	$ -	$ 2,024	$ -	$ 2,024

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, 2014 and 2013, there was no other real estate owned by the Corporation.

During 2014 and 2013, there were no charge-offs recorded at the time of foreclosure. During 2014 and 2013, 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.

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, 2014 and 2013 are as follows (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 1,331	$ 1,331	$ 1,296	$ 1,296
Interest-bearing deposits	59,446	60,144	48,830	49,191
Investment securities	66,360	66,360	58,282	58,282
FHLB stock	209	209	217	217
Loans held-for-sale	583	583	-	-
Loans, net	137,961	137,477	126,426	126,675
Bank-owned life insurance	4,172	4,172	4,048	4,048
Accrued interest receivable	814	814	733	733
Financial liabilities:				
Deposits	250,425	224,384	221,078	188,466
FHLB advances	500	500	500	500
Other long-term borrowings	-	-	741	741
Accrued interest payable	42	42	47	47

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

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2014
ASSETS				
Cash and due from banks	$ 25	$ 1,331	$ (25)	$ 1,331
Interest-bearing deposits in financial institutions maturing in less than three months	-	41,102	-	41,102
Total cash and cash equivalents	25	42,433	(25)	42,433
Interest-bearing deposits in financial institutions maturing in more than three months	-	18,344	-	18,344
Investment in subsidiary	22,693	-	(22,693)	-
Investment securities	-	66,360	-	66,360
Federal Home Loan Bank stock, at cost	-	209	-	209
Loans, net of allowance for loan losses	-	138,544	-	138,544
Bank premises and equipment, net of accumulated depreciation	-	2,782	-	2,782
Bank-owned life insurance	-	4,172	-	4,172
Accrued interest receivable	-	814	-	814
Other assets	-	164	-	164
Total Assets	$ 22,718	$ 273,822	$ (22,718)	$ 273,822
LIABILITIES				
Deposits	$ -	$ 250,450	$ (25)	$ 250,425
Advances from Federal Home Loan Bank	-	500	-	500
Other liabilities:				
Accrued interest payable	-	42	-	42
Accrued expenses and other liabilities	-	137	-	137
Total other liabilities	-	179	-	179
Total Liabilities	-	251,129	(25)	251,104
SHAREHOLDERS' EQUITY				
Common stock, $1 par value:				
Authorized - 1,000,000 shares				
Issued and outstanding - 450,668 shares	451	401	(401)	451
Additional paid-in capital	10,820	11,825	(11,825)	10,820
Retained earnings	10,876	9,896	(9,896)	10,876
Accumulated other comprehensive income	571	571	(571)	571
Total Shareholders' Equity	22,718	22,693	(22,693)	22,718
Total Liabilities and Shareholders' Equity	$ 22,718	$ 273,822	$ (22,718)	$ 273,822

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	ELIMINATIONS	CONSOLIDATED BALANCES 2014
Interest income				
Interest and fees on loans	$ -	$ 7,035	$ -	$ 7,035
Interest on investment securities	-	1,082	-	1,082
Interest on federal funds sold and interest-bearing deposits with financial institutions	-	218	-	218
Total interest income	-	8,335	-	8,335
Interest expense				
On deposits	-	385	-	385
On borrowed funds	9	25	-	34
Total interest expense	9	410	-	419
Net interest income (expense)	(9)	7,925	-	7,916
Provision for loan losses	-	-	-	-
Net interest income (expense) after provision for loan losses	(9)	7,925	-	7,916
Non-interest income				
Service charges and fees on deposit accounts	-	368	-	368
Equity in undistributed income of subsidiary	780	-	(780)	-
Dividend income from subsidiary	1,810	-	(1,810)	-
Mortgage broker fees	-	42	-	42
Earnings on bank-owned life insurance	-	124	-	124
Net gain on sales of loans	-	287	-	287
Other	-	370	-	370
Total non-interest income	2,590	1,191	(2,590)	1,191
Non-interest expense				
Salaries and employee benefits	-	3,940	-	3,940
Occupancy	-	430	-	430
Furniture and equipment	-	151	-	151
Data processing	-	295	-	295
Professional fees	-	204	-	204
Amortization of goodwill	-	489	-	489
Other operating expenses	-	1,017	-	1,017
Total non-interest expense	-	6,526	-	6,526
Net Income	$ 2,581	$ 2,590	$ (2,590)	$ 2,581

See Independent Auditor's Report.

COMMUNITY FIRST BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 1,331	$ 1,296
Interest-bearing deposits in financial institutions maturing in less than three months	41,102	30,723
Total cash and cash equivalents	42,433	32,019
Interest-bearing deposits in financial institutions maturing in more than three months	18,344	18,107
Investment securities	66,360	58,282
Federal Home Loan Bank stock, at cost	209	217
Loans, net of allowance for loan losses	138,544	126,426
Bank premises and equipment, net of accumulated depreciation	2,782	2,835
Bank-owned life insurance	4,172	4,048
Accrued interest receivable	814	733
Goodwill	-	489
Other assets	164	189
Total Assets	$ 273,822	$ 243,345
LIABILITIES		
Deposits	$ 250,450	$ 221,103
Advances from Federal Home Loan Bank	500	500
Other liabilities:		
Accrued interest payable	42	40
Accrued expenses and other liabilities	137	218
Total other liabilities	179	258
Total Liabilities	251,129	221,861
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	11,825	11,752
Retained earnings	9,896	9,116
Accumulated other comprehensive income	571	215
Total Shareholder's Equity	22,693	21,484
Total Liabilities and Shareholder's Equity	$ 273,822	$ 243,345

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
Interest income		
Interest and fees on loans	$ 7,035	$ 7,155
Interest on investment securities	1,082	553
Interest on federal funds sold and interest-bearing deposits with financial institutions	218	233
Total interest income	8,335	7,941
Interest expense		
On deposits	385	370
On borrowed funds	25	25
Total interest expense	410	395
Net interest income	7,925	7,546
Provision for loan losses	-	60
Net interest income after provision for loan losses	7,925	7,486
Non-interest income		
Service charges and fees on deposit accounts	368	359
Mortgage broker fees	42	75
Earnings on bank-owned life insurance	124	129
Gain on sales of other real estate owned	-	16
Loss on disposals of premises and equipment	-	(1)
Gain on sales of investment securities	-	7
Net gain on sales of loans	287	290
Other	370	379
Total non-interest income	1,191	1,254
Non-interest expense		
Salaries and employee benefits	3,940	3,788
Occupancy	430	412
Furniture and equipment	151	152
Data processing	295	312
Professional fees	204	203
Amortization of goodwill	489	-
Other operating expenses	1,017	939
Total non-interest expense	6,526	5,806
Net Income	$ 2,590	$ 2,934

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COMMUNITY FIRST BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	$ 401	$ 11,662	$ 8,226	$ 616	$ 20,905
Stock option compensation expense		1			1
Restricted stock compensation expense		35			35
Directors stock compensation expense		54			54
Net income for the year ended December 31, 2013			2,934		2,934
Reclassification adjustment for sales of investment securities				5	5
Unrealized loss on available-for-sale securities				(406)	(406)
Dividends paid - $5.10 per share			(2,044)		(2,044)
Balance at December 31, 2013	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

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COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,590	$ 2,934
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Depreciation and amortization	292	297
Provision for loan losses	-	60
Net amortization on investment securities	608	473
Stock option compensation expense	1	1
Resticted stock compensation expense	23	35
Directors stock compensation expense	49	54
Earnings on bank-owned life insurance	(124)	(129)
Gain on sales of other real estate owned	-	(16)
Loss on disposals of premises and equipment	-	1
Gain on sales of investment securities	-	(7)
Originations of loans held-for-sale	(13,814)	(15,020)
Proceeds from sales of loans held-for-sale	13,518	16,084
Net gain on sales of loans	(287)	(290)
Amortization of goodwill	489	-
Increase in accrued interest receivable	(81)	(65)
Increase (decrease) in accrued interest payable	2	(12)
Other	(121)	101
Total adjustments	555	1,567
Net Cash Provided by Operating Activities	3,145	4,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in interest-bearing deposits in financial		
institutions maturing in more than three months	(237)	162
Purchases of investment securities:		
Available-for-sale	(23,973)	(33,096)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	12,565	4,000
Proceeds from sales of investment securities:		
Available-for-sale	-	609
Proceeds from principal paydowns on investment securities:		
Available-for-sale	3,078	1,910
Proceeds from redemptions of FHLB stock	8	8
Net (increase) decrease in loans made to customers	(11,535)	2,022
Purchases of premises and equipment	(177)	(56)
Proceeds from disposals of premises and equipment	3	-
Proceeds from sales of other real estate owned	-	291
Net Cash Used by Investing Activities	$ (20,268)	$ (24,150)

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COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollars in Thousands)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 29,262	$ 18,883
Net increase (decrease) in time deposits	85	(2,532)
Dividends paid	(1,810)	(2,044)
Net Cash Provided by Financing Activities	27,537	14,307
Net increase (decrease) in cash and cash equivalents	10,414	(5,342)
Cash and cash equivalents at beginning of year	32,019	37,361
Cash and cash equivalents at end of year	$ 42,433	$ 32,019
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 408	$ 407