

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2016 AND 2015

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



INDEPENDENT AUDITOR'S REPORT

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598

www.sga-cpas.com

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, 2016 and 2015 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, 2016 and 2015 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 30, 2017

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 3	\$ 5,994	\$ 4,907
Interest-bearing deposits in financial institutions maturing in less than three months	34,144	26,732
Total cash and cash equivalents	40,138	31,639
Interest-bearing deposits in financial institutions maturing in more than three months	8,729	14,648
Investment securities - Note 4	73,033	69,265
Federal Home Loan Bank stock, at cost - Note 2	343	349
Loans held-for-sale - Note 5	392	371
Loans, net of deferred loan fees and allowance for loan losses - Note 5	154,198	144,668
Premises and equipment, net of accumulated depreciation - Note 6	2,861	2,822
Bank-owned life insurance	6,062	4,293
Goodwill - Note 7	2,473	-
Accrued interest receivable	818	802
Other assets	1,137	300
Total Assets	\$ 290,184	\$ 269,157
 LIABILITIES		
Deposits - Note 8	\$ 260,663	\$ 244,158
Advances from Federal Home Loan Bank - Note 9	500	500
Other liabilities:		
Accrued interest payable	27	33
Accrued expenses and other liabilities	265	176
Total other liabilities	292	209
Total Liabilities	261,455	244,867
 Commitments and contingencies - Notes 6, 11, 12, 13, 14 and 15		
SHAREHOLDERS' EQUITY		
Common stock, \$1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 502,932 and 454,495 shares at December 31, 2016 and 2015, respectively	503	455
Additional paid-in capital	13,873	11,035
Retained earnings	14,310	12,328
Accumulated other comprehensive income	43	472
Total Shareholders' Equity	28,729	24,290
Total Liabilities and Shareholders' Equity	\$ 290,184	\$ 269,157

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, 2016 AND 2015
(Dollars in Thousands, except for per share amounts)

	2016	2015
Interest income		
Interest and fees on loans	\$ 7,422	\$ 6,998
Interest on investment securities	1,167	1,149
Interest on federal funds sold and interest-bearing deposits with financial institutions	269	227
Total interest income	8,858	8,374
Interest expense		
On deposits	356	371
On borrowed funds	25	25
Total interest expense	381	396
Net interest income	8,477	7,978
Provision for loan losses - Note 5	-	45
Net interest income after provision for loan losses	8,477	7,933
Non-interest income		
Service charges and fees on deposit accounts	330	339
Mortgage broker fees	8	26
Earnings on bank-owned life insurance	169	121
Net gain on sales of loans	318	197
Income from fiduciary activities	2,753	-
Other	431	395
Total non-interest income	4,009	1,078
Non-interest expense		
Salaries and employee benefits	5,947	3,593
Occupancy	555	450
Furniture and equipment	300	195
Data processing	479	321
Professional fees	257	310
Other operating expenses	1,497	1,330
Total non-interest expense	9,035	6,199
Net Income	\$ 3,451	\$ 2,812
Basic earnings per share of common stock	\$ 6.91	\$ 6.20
Average shares of common stock outstanding	499,325	453,635

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, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
Net Income	\$ 3,451	\$ 2,812
Other Comprehensive Loss		
Securities available-for-sale:		
Change in net unrealized gain during the year	(429)	(99)
Other comprehensive loss	(429)	(99)
Comprehensive Income	\$ 3,022	\$ 2,713

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, 2016 AND 2015
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2015	\$ 451	\$ 10,820	\$ 10,876	\$ 571	\$ 22,718
Sale of stock	2	90			92
Exercise of stock options	1	56			57
Stock option compensation expense		2			2
Restricted stock compensation expense		9			9
Directors stock compensation expense	1	58			59
Comprehensive income (loss) for the year ended December 31, 2015			2,812	(99)	2,713
Dividends paid - \$3.00 per share			(1,360)		(1,360)
Balance at December 31, 2015	455	11,035	12,328	472	24,290
Acquisition - Note 21	42	2,457			2,499
Sale of stock	4	250			254
Exercise of stock options	1	74			75
Stock option compensation expense		2			2
Restricted stock compensation expense		6			6
Directors stock compensation expense	1	49			50
Comprehensive income (loss) for the year ended December 31, 2016			3,451	(429)	3,022
Dividends paid - \$3.00 per share			(1,469)		(1,469)
Balance at December 31, 2016	<u>\$ 503</u>	<u>\$ 13,873</u>	<u>\$ 14,310</u>	<u>\$ 43</u>	<u>\$ 28,729</u>

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,451	\$ 2,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	390	303
Provision for loan losses	-	45
Net amortization on investment securities	533	601
Stock option compensation expense	2	2
Restricted stock compensation expense	6	9
Directors stock compensation expense	50	59
Earnings on bank-owned life insurance	(169)	(121)
Originations of loans held-for-sale	(18,293)	(9,506)
Proceeds from sales of loans held-for-sale	18,590	9,915
Net gain on sales of loans	(318)	(197)
Increase in net deferred loan fees	117	93
(Increase) decrease in accrued interest receivable	(16)	12
Decrease in accrued interest payable	(6)	(9)
Other	(796)	(131)
Total adjustments	90	1,075
Net Cash Provided by Operating Activities	3,541	3,887
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in interest-bearing deposits in financial institutions maturing in more than three months	5,919	3,696
Purchases of investment securities:		
Available-for-sale	(17,020)	(17,397)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	7,965	8,973
Proceeds from principal paydowns on investment securities:		
Available-for-sale	4,326	4,819
Purchases of FHLB stock	(8)	(146)
Proceeds from redemptions of FHLB stock	14	6
Purchases of bank-owned life insurance	(1,600)	-
Net increase in loans made to customers	(9,647)	(6,845)
Purchases of premises and equipment	(356)	(309)
Net Cash Used by Investing Activities	\$ (10,407)	\$ (7,203)

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, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings	\$ 18,146	\$ (4,811)
Net decrease in time deposits	(1,641)	(1,456)
Proceeds from sales of common stock	254	92
Proceeds from stock options exercised	75	57
Dividends paid	(1,469)	(1,360)
Net Cash Provided (Used) by Financing Activities	15,365	(7,478)
Net increase (decrease) in cash and cash equivalents	8,499	(10,794)
Cash and cash equivalents at beginning of year	31,639	42,433
Cash and cash equivalents at end of year	\$ 40,138	\$ 31,639
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	\$ 387	\$ 405
Stock issued from the acquisition of HFG Trust, LLC	2,499	-

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 in 2005. 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.

Effective January 1, 2016, HFG Trust, LLC, a wholly owned subsidiary of the Bank was established. At this same time, HFG Holdings, LLC, a newly established merger subsidiary of the Corporation, and Haberling Financial Group, Inc. merged. After the merger, HFG Holdings, LLC was merged into HFG Trust, LLC. Pursuant to the merger agreement, 41,600 shares of common stock in the Corporation were issued to shareholders of Haberling Financial Group, Inc. Haberling Financial Group, Inc. was principally owned by a director of the Corporation. Refer to Notes 10 and 21 for additional information.

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”) and the Bank’s one hundred percent (100%) owned subsidiary, HFG Trust, LLC (“HFG”). The accounting and reporting policies of all three entities are in accordance with accounting principles generally accepted in the United States of America. All dollar amounts, except per share information, are stated in thousands.

Principles of Consolidation

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

Nature of Operations

Community First Bancorporation, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Community First Bank. Community First Bank operates four offices in Kennewick, Connell, Pasco and Richland, Washington. Community First Bank provides loan services to and accepts deposits from customers, who are predominately small- and middle-market businesses and middle-income individuals, in Southeastern Washington State. Funding sources are deposits from customers, public entities and borrowings from various sources. The Bank operates under a state bank charter and provides full banking services. The Bank is subject to regulation by the Washington State Department of Financial Institutions and the Federal Deposit Insurance Corporation. HFG Trust, LLC is a wholly-owned subsidiary of the Bank and provides financial management and trust services to a variety of customers at its office in Kennewick, Washington. At December 31, 2016, HFG Trust, LLC had assets under management for its customers totaling \$409,548,000.

Estimates

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

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

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

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

Cash and Cash Equivalents and Cash Flows

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

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.

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, 2016 and 2015, the Corporation had \$343,000 and \$349,000, 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 2016 and 2015, 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 2016 and 2015, there were no losses incurred regarding these representations and warranties.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

Loans

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

Loan Origination Fees and Costs

Loan origination fees and costs are deferred and amortized into income as an adjustment to yield over the life of the related loan.

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

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.

Premises and Equipment

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

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

Other Real Estate Owned

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

Goodwill

As a result of the HFG acquisition which is discussed in Note 1, goodwill was recorded by the Corporation. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted authoritative guidance issued by the FASB. Under this guidance, goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. Refer to Note 7 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.

Reserve for Unfunded Commitments

The Corporation has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. At December 31, 2016 and 2015, 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, the Bank and HFG 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.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Federal Income Taxes, continued

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, 2013 through December 31, 2016 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 2016 or 2015.

Stock-Based Compensation

The Corporation has stock-based employee and director compensation plans which are more fully described in Note 16. 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 \$58,000 and \$70,000 lower for the years ended December 31, 2016 and 2015, 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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of \$70,000 and \$41,000 were expensed during 2016 and 2015, 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.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

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.

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

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

Book Value and Tangible Book Value per Share

Book value 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. Tangible book value per share is calculated by dividing the total shareholders' equity less goodwill shown on the consolidated balance sheets by the number of shares outstanding as of year-end. At December 31, 2016 and 2015, the book value per share is \$57.12 and \$53.44, respectively. At December 31, 2016 and 2015, the tangible book value per share is \$52.20 and \$53.44, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

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, 2016 through March 30, 2017, 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.

New Accounting Standards

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a corporation will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the corporation expects to be entitled in exchange for those goods or services. In doing so, corporations will need to use more 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. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective in the first quarter of 2018 and is not expected to have a significant impact on the Corporation's consolidated financial statements.

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

In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, which amended its authoritative guidance related to debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. This amendment became effective in 2016 and did not have a significant impact on

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

the Corporation's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2018. The Corporation is evaluating the potential impact of the amendment on the Corporation's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is evaluating the potential impact of the amendment on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation believes the amendments in this update will have an impact on the Corporation's consolidated financial statements and is working to evaluate the significance of that impact.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 was \$3,469,000 and \$5,851,000, respectively.

Note 4 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2016 are as follows (in thousands):

	December 31, 2016			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale:				
U.S. Treasury notes	\$ 24,920	\$ 20	\$ (86)	\$ 24,854
U.S. Government agencies	12,568	70	(33)	12,605
U.S. Government agency mortgage-backed securities	1,221	6	(8)	1,219
Collateralized mortgage obligations	11,569	61	(68)	11,562
Corporate securities	500	9	-	509
Obligations of state and political subdivisions	22,211	189	(117)	22,283
Other investments	1	-	-	1
Total available-for-sale securities	\$ 72,990	\$ 355	\$ (312)	\$ 73,033

The balance sheet as of December 31, 2016 reflects the fair value of available-for-sale securities in the amount of \$73,033,000. A net unrealized gain of \$43,000 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 4 Investment Securities, continued

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

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

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

The amortized cost and fair value of debt securities at December 31, 2016, 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	\$ 8,200	\$ 8,207
After one year through five years	40,697	40,772
After five years through ten years	10,773	10,755
After ten years	530	518
	<u>60,200</u>	<u>60,252</u>
U.S. Government agency mortgage-backed securities	1,221	1,219
Collateralized mortgage obligations	11,569	11,562
Totals	<u>\$ 72,990</u>	<u>\$ 73,033</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 4 Investment Securities, continued

Investment securities with fair market values of \$7,952,000 and \$8,246,000 at December 31, 2016 and 2015, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

There were no sales of investment securities during 2016 and 2015. During 2016 and 2015, the Corporation received proceeds totaling \$14,000 and \$6,000, respectively, from the redemptions of Federal Home Loan Bank (FHLB) stock. The FHLB stock was redeemed at par value, so there were no realized gains or losses on these redemptions.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, 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, 2016:						
Federal agencies	\$ 25,470	\$ (172)	\$ 720	\$ (23)	\$ 26,190	\$ (195)
Corporate securities	-	-	-	-	-	-
Municipals	9,825	(100)	1,062	(17)	10,887	(117)
Total	\$ 35,295	\$ (272)	\$ 1,782	\$ (40)	\$ 37,077	\$ (312)
December 31, 2015:						
Federal agencies	\$ 19,138	\$ (108)	\$ -	\$ -	\$ 19,138	\$ (108)
Corporate securities	496	(4)	-	-	496	(4)
Municipals	1,536	(4)	1,619	(17)	3,155	(21)
Total	\$ 21,170	\$ (116)	\$ 1,619	\$ (17)	\$ 22,789	\$ (133)

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, 2016, the 48 debt securities with unrealized losses have depreciated less than 1% from the Corporation's amortized cost basis. These securities are primarily guaranteed by either the U.S. Government or other governments. The unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Commercial, agricultural and industrial loans	\$ 22,076	\$ 23,886
Real estate (RE) loans:		
Construction, land and land development	17,400	15,370
Residential 1-4 family	18,638	18,032
Commercial RE	95,835	87,108
Consumer loans	2,398	2,382
Overdrafts	141	44
	156,488	146,822
Less: Net deferred loan fees	(211)	(94)
Allowance for loan losses	(1,687)	(1,689)
Loans, Net	\$ 154,590	\$ 145,039

At December 31, 2016 and 2015, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling \$392,000 and \$371,000, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2016 are summarized as follows (in thousands):

	<u>Commercial, Agricultural and Industrial</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial RE</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2016 Total</u>
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 33	\$ 7	\$ 285	\$ 142	\$ 38	\$ 1,184	\$ 1,689
Provisions, charged (credited) to income	<u>63</u>	<u>(3)</u>	<u>(90)</u>	<u>(68)</u>	<u>8</u>	<u>90</u>	<u>-</u>
	<u>96</u>	<u>4</u>	<u>195</u>	<u>74</u>	<u>46</u>	<u>1,274</u>	<u>1,689</u>
Loans charged-off	-	-	-	-	(5)	-	(5)
Recoveries of loans previously charged-off	-	-	-	-	3	-	3
Net charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Balance, end of year	<u>\$ 96</u>	<u>\$ 4</u>	<u>\$ 195</u>	<u>\$ 74</u>	<u>\$ 44</u>	<u>\$ 1,274</u>	<u>\$ 1,687</u>
Ending balance: Individually evaluated for impairment	\$ 18	\$ -	\$ 170	\$ -	\$ -	\$ -	\$ 188
Ending balance: Collectively evaluated for impairment	<u>78</u>	<u>4</u>	<u>25</u>	<u>74</u>	<u>44</u>	<u>1,274</u>	<u>1,499</u>
Balance, end of year	<u>\$ 96</u>	<u>\$ 4</u>	<u>\$ 195</u>	<u>\$ 74</u>	<u>\$ 44</u>	<u>\$ 1,274</u>	<u>\$ 1,687</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 123	\$ -	\$ 1,442	\$ 497	\$ 19		\$ 2,081
Ending balance: Collectively evaluated for impairment	<u>21,953</u>	<u>17,400</u>	<u>17,196</u>	<u>95,338</u>	<u>2,520</u>		<u>154,407</u>
Ending balance total loans	<u>\$ 22,076</u>	<u>\$ 17,400</u>	<u>\$ 18,638</u>	<u>\$ 95,835</u>	<u>\$ 2,539</u>		<u>\$ 156,488</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 Loans and Allowance for Loan Losses, continued

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

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 are as follows (in thousands):

	<u>Pass</u>	<u>Other Assets Especially Mentioned</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2016:					
Commercial, agricultural and industrial loans	\$ 21,146	\$ 256	\$ 674	\$ -	\$ 22,076
Real estate (RE) loans:					
Construction, land and land development	17,400	-	-	-	17,400
Residential 1-4 family	17,356	199	1,083	-	18,638
Commercial RE	92,529	914	2,392	-	95,835
Consumer and other loans	2,493	-	46	-	2,539
Subtotal	<u>\$ 150,924</u>	<u>\$ 1,369</u>	<u>\$ 4,195</u>	<u>\$ -</u>	156,488
Less: Net deferred loan fees					(211)
Total loans					<u>\$ 156,277</u>
December 31, 2015:					
Commercial, agricultural and industrial loans	\$ 22,519	\$ 205	\$ 1,162	\$ -	\$ 23,886
Real estate (RE) loans:					
Construction, land and land development	15,370	-	-	-	15,370
Residential 1-4 family	16,495	593	944	-	18,032
Commercial RE	83,483	960	2,665	-	87,108
Consumer and other loans	2,395	-	31	-	2,426
Subtotal	<u>\$ 140,262</u>	<u>\$ 1,758</u>	<u>\$ 4,802</u>	<u>\$ -</u>	146,822
Less: Net deferred loan fees					(94)
Total loans					<u>\$ 146,728</u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Commercial, agriculture and industrial loans	\$ 43	\$ -
Real estate (RE) loans:		
Residential 1-4 family	394	-
Commercial RE	<u>418</u>	<u>263</u>
Total nonaccrual loans	<u>\$ 855</u>	<u>\$ 263</u>

At December 31, 2016 and 2015, a summary of information pertaining to impaired loans is as follows (in thousands):

	<u>Unpaid Contractual Principal Balance</u>	<u>Recorded Investment with No Allowance</u>	<u>Recorded Investment with Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
December 31, 2016:							
Commercial, agriculture and industrial loans	\$ 126	\$ -	\$ 123	\$ 123	\$ 18	\$ 107	\$ 9
Real estate (RE) loans:							
Residential 1-4 family	1,448	-	1,442	1,442	170	1,326	58
Commercial RE	680	-	497	497	-	421	6
Consumer and other loans	<u>19</u>	<u>-</u>	<u>19</u>	<u>19</u>	<u>-</u>	<u>25</u>	<u>1</u>
Total	<u>\$ 2,273</u>	<u>\$ -</u>	<u>\$ 2,081</u>	<u>\$ 2,081</u>	<u>\$ 188</u>	<u>\$ 1,879</u>	<u>\$ 74</u>
December 31, 2015:							
Commercial, agriculture and industrial loans	\$ 91	\$ -	\$ 91	\$ 91	\$ 2	\$ 98	\$ 5
Real estate (RE) loans:							
Residential 1-4 family	1,210	-	1,210	1,210	242	1,236	67
Commercial RE	480	-	345	345	9	323	1
Consumer and other loans	<u>31</u>	<u>-</u>	<u>31</u>	<u>31</u>	<u>1</u>	<u>38</u>	<u>2</u>
Total	<u>\$ 1,812</u>	<u>\$ -</u>	<u>\$ 1,677</u>	<u>\$ 1,677</u>	<u>\$ 254</u>	<u>\$ 1,695</u>	<u>\$ 75</u>

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 2016 and 2015 are set forth in the following table (in thousands, except for number of contracts):

	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2016
December 31, 2016:			
Commercial, agriculture and industrial loans	1	\$ 68	\$ 39
Real estate (RE) loans:			
Residential 1-4 family	1	308	298
Total troubled debt restructurings	<u>2</u>	<u>\$ 376</u>	<u>\$ 337</u>
	Number of Contracts	Balance at Restructuring Date	Balance at December 31, 2015
December 31, 2015:			
Commercial, agriculture and industrial loans	1	\$ 18	\$ 18
Real estate (RE) loans:			
Commercial RE loans	1	83	82
Total troubled debt restructurings	<u>2</u>	<u>\$ 101</u>	<u>\$ 100</u>

Concessions granted on these loans include reduction of interest rates and restructuring payments to match borrower’s cash flow. At December 31, 2016, there was one residential 1-4 family loan and one commercial real estate loan totaling \$394,000 and \$5,000, respectively, that were restructured prior to 2016 that were on nonaccrual. At December 31, 2016, all other loans restructured were paying in accordance to the restructured terms. At December 31, 2015, all restructured loans were paying in accordance to the restructured terms.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 5 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2016 and 2015 (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More Past Due and Still Accruing
December 31, 2016:						
Commercial, agricultural and industrial loans	\$ 186	\$ 66	\$ 252	\$ 21,824	\$ 22,076	\$ 66
Real estate (RE) loans:						
Construction, land and land development	415	-	415	16,985	17,400	-
Residential 1-4 family	552	-	552	18,086	18,638	-
Commercial RE	-	-	-	95,835	95,835	-
Consumer and other loans	-	-	-	2,539	2,539	-
Less: Net deferred loan fees	-	-	-	(211)	(211)	-
Total	\$ 1,153	\$ 66	\$ 1,219	\$ 155,058	\$ 156,277	\$ 66
December 31, 2015:						
Commercial, agricultural and industrial loans	\$ 49	\$ -	\$ 49	\$ 23,837	\$ 23,886	\$ -
Real estate (RE) loans:						
Construction, land and land development	414	-	414	14,956	15,370	-
Residential 1-4 family	-	-	-	18,032	18,032	-
Commercial RE	-	206	206	86,902	87,108	-
Consumer and other loans	-	-	-	2,426	2,426	-
Less: Net deferred loan fees	-	-	-	(94)	(94)	-
Total	\$ 463	\$ 206	\$ 669	\$ 146,059	\$ 146,728	\$ -

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 6 Premises and Equipment

The investment in premises and equipment at December 31, 2016 and 2015 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Land	\$ 449	\$ 449
Buildings	2,536	2,536
Leasehold improvements	497	491
Furniture and equipment	1,838	1,488
Furniture and equipment in process	<u>2</u>	<u>-</u>
	5,322	4,964
Less accumulated depreciation and amortization	<u>(2,461)</u>	<u>(2,142)</u>
Premises and equipment, net	<u>\$ 2,861</u>	<u>\$ 2,822</u>

Depreciation and amortization on premises and equipment charged to expense totaled \$342,000 and \$269,000 for the years ended December 31, 2016 and 2015, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled \$48,000 and \$34,000 for the years ended December 31, 2016 and 2015, respectively.

The Corporation owns the building that houses its main branch and leases the land and a sign from a director. The lease is classified as an operating lease with an initial term of ten years and minimum annual rents of \$28,000, with cost of living increases annually. The initial lease term expired February 28, 2012 and was renewed through February 28, 2017. The land lease contains renewal clauses from five to twenty years and escalation clauses based on increases in the Consumer Price Index. As of December 31, 2016, this lease includes three more renewal options of five years each.

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

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

On December 18, 2015, the Corporation entered into a lease agreement with a director for the facilities that are used by HFG Trust, LLC, a subsidiary of the Bank. Refer to Note 21 for additional information regarding this acquisition. This lease has an effective date of January 1, 2016 through December 31, 2018 and includes options to renew and extend the term for an additional one, two or three years. The lease agreement provides for minimum annual rents of \$60,000 and has annual rent increases based on the Consumer Price Index.

The Corporation recorded lease expense in the amount of \$245,000 and \$152,000 for the years ended December 31, 2016 and 2015, respectively. Included in the lease expense were amounts paid to a related parties in the amount of \$137,000 and \$52,000 for the years ended December 31, 2016 and 2015, respectively.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 6 Premises and Equipment, continued

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

2017	\$	221
2018		215
2019		159
2020		162
2021		58
Thereafter		<u>10</u>
Total	\$	<u><u>825</u></u>

Note 7 Goodwill

As discussed in Note 1, the Corporation completed the HFG acquisition effective January 1, 2016. This acquisition resulted in goodwill being recorded which totaled \$2,473,000. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and will be evaluated for impairment at least annually. No impairment of goodwill was identified during 2016. Refer to Note 21 for additional information regarding this acquisition.

Note 8 Deposits

The carrying amounts of deposits at December 31, 2016 and 2015 are as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Demand	\$ 104,894	\$ 106,454
Interest-bearing transaction accounts	135,179	116,037
Savings	8,349	7,785
Time deposits less than \$100,000	4,815	5,152
Time deposits \$100,000 and over	<u>7,426</u>	<u>8,730</u>
Total deposits	<u><u>\$ 260,663</u></u>	<u><u>\$ 244,158</u></u>

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

2017	\$	8,023
2018		771
2019		1,488
2020		4
2021		492
Thereafter		<u>1,463</u>
Total	\$	<u><u>12,241</u></u>

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 8 Deposits, continued

At December 31, 2016 and 2015, there were no brokered deposits or deposits obtained from customers outside the Corporation's primary market area. The aggregate amount of time deposits in denominations exceeding the FDIC insurance limit of \$250,000 at December 31, 2016 and 2015 totaled \$3,029,000 and \$4,122,000, respectively.

Note 9 Advances from Federal Home Loan Bank

During 2008, the Corporation borrowed \$500,000 from the Federal Home Loan Bank. Interest is assessed at a fixed rate of 4.97%. Interest only payments are due monthly with principal and any unpaid interest due at the maturity date on May 9, 2018. This borrowing is collateralized by investment securities with a carrying amount of \$7,000 at December 31, 2016 and a blanket pledge of eligible loans with a carrying amount of \$15,537,000 at December 31, 2016. The outstanding balance was \$500,000 at December 31, 2016 and 2015. Refer to Note 4 for additional information regarding the pledged investment securities. Refer to Note 14 for additional information regarding the amount available for future borrowings under this line of credit.

Note 10 Related Party Transactions

During 2016 and 2015, 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, 2016	\$ -	\$ 1	\$ (1)	\$ -
December 31, 2015	\$ -	\$ 73	\$ (73)	\$ -

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of \$27,191,000 and \$21,004,000 at December 31, 2016 and 2015, respectively.

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

As discussed in Note 1, a merger took place between the Corporation, HFG Holdings, LLC and Haberling Financial Group, Inc., a corporation whose principal shareholder is a director of the Corporation. Refer to Note 21 for additional information regarding this acquisition.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 11 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):

	<u>2016</u>	<u>2015</u>
Commitments to extend credit	\$ 31,895	\$ 24,894
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 2016 or 2015. The Corporation has not incurred any material losses on its commitments in 2016 or 2015.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 12 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 13 Commitments and Contingent Liabilities

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

The Bank participates in the Washington State Public Depository program. In February 2009, new standards were adopted which require institutions to collateralize uninsured public deposits at 100 percent. In June 2016, resolution 2016-1 was adopted which reduced the collateral requirement from 100 percent of uninsured public deposits to 50 percent for well-capitalized public depository banks. At December 31, 2016 and 2015, the Corporation had pledged investment securities with a carrying amount of \$7,885,000 and \$8,140,000, respectively, to secure public deposits. Refer to Note 4 for additional information.

The Corporation has entered into employment agreements with certain advisors of HFG Trust, LLC which provides for the award of phantom units that entitle the advisor to receive a payment equal to different percentages of the Modified Net Income of HFG Trust, LLC each fiscal year that they are employed by HFG Trust, LLC. The agreement also provides for the redemption of the phantom units upon termination of employment which occurs on the first of (1) termination of the advisor's employment with HFG Trust, LLC for any reason or (2) advisor reaching the age of 66. Payment for the redemption of the phantom units will be made on the 1st day of May of the calendar year following the year of termination by delivery of (1) shares of common stock of the Corporation equal to 66.7% of the redemption price and (2) a lump sum payment equal to 33.3% of the redemption price. Each phantom unit is entitled to one percent of the formula value of HFG as of the close of business on the last day of the fiscal year that termination occurs. The formula value of HFG is defined as an amount equal to the measurement year gross revenue multiplied by the net operating percentage (the average modified net income as a percentage of gross revenue over three years) multiplied by the earnings multiple (which shall not be less than 6.5 or greater than 8.5).

Note 14 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, 2016 and 2015.

The Corporation also has a credit line with the Federal Home Loan Bank of Des Moines totaling 35% of assets which had available borrowings of \$98,240,000 at December 31, 2016 assuming assets are pledged accordingly. There were outstanding balances on this line of credit totaling \$500,000 at December 31, 2016 and 2015. Refer to Note 9 for additional information on this line of credit.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 15 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, 2016, the Corporation had uninsured deposits in other financial institutions totaling \$1,501,000. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation has credit risk exposure, including off-balance-sheet credit risk exposure, as disclosed in Notes 5 and 11. 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 \$5,000,000.

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 16 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, 2016, there were 37,544 shares available for grant under this Plan. The exercise price of options and the value of other awards is equal to the fair market value of the Corporation's stock on the date of grant. The maximum term of stock options is ten years. Options are 100% vested five years after the grant date. The Corporation has entered into "Restricted Stock Award Agreements" with certain of its executive officers. These awards vest ratably over a period of three years from the date of grant.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 16 Stock Compensation Plans, continued

A summary of the Corporation's restricted stock awards and activity for the years ending December 31, 2016 and 2015 is presented below:

	Restricted Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1, 2015	546	\$ 56.98
Granted	-	-
Forfeited	-	-
Vested	(336)	56.53
Non-vested at December 31, 2015	210	\$ 57.70
Outstanding at January 1, 2016	210	\$ 57.70
Granted	-	-
Forfeited	-	-
Vested	(105)	57.70
Non-vested at December 31, 2016	105	\$ 57.70

Under the provisions of the Plan, grantees of restricted stock awards have all the rights of a shareholder (including voting, dividend and liquidation rights). Stock compensation expense totaling \$6,000 and \$9,000 was recorded during 2016 and 2015, respectively, relating to restricted stock awards. At December 31, 2016, there was \$1,000 in unrecognized compensation expense relating to these awards that is expected to be recognized over a period of one year.

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 2016 and 2015, stock compensation expense totaling \$50,000 and \$59,000, respectively, was recorded relating to directors' compensation. During 2016 and 2015, 887 and 914 shares, respectively, were issued to directors relating to this program.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 16 **Stock Compensation Plans, continued**

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

The compensation cost that has been charged against income for these plans was \$2,000 for the years ended December 31, 2016 and 2015. 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, 2016 and 2015.

The Corporation accounts for stock-based awards to employees and directors using the fair value method, in accordance with accounting guidance issued by the FASB. The Corporation uses the Black-Scholes valuation model to estimate the fair value of stock option awards. The following assumptions are used in the Black-Scholes model: expected volatility, expected dividends, expected term and risk-free rate. Expected volatilities are based on the historical volatility of the Corporation's stock and other factors. The Corporation uses historical data to estimate option exercise and employee termination within the model. The expected term of options granted is determined from the output of the option valuation model and management's experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are determined at the date of grant and are not subsequently adjusted for actual. There were no grants of stock options during 2016 and 2015.

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Note 16 Stock Compensation Plans, continued

A summary of option activity under the Plans as of December 31, 2016 and 2015, and changes during the years then ended, are presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding at January 1, 2015	22,000	\$ 55.45	
Granted	-	-	
Exercised	(1,300)	44.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2015	<u>20,700</u>	<u>\$ 56.17</u>	<u>7.03</u>
Vested or expected to vest at December 31, 2015	<u>20,700</u>	<u>\$ 56.17</u>	<u>7.03</u>
Exercisable at December 31, 2015	<u>9,500</u>	<u>\$ 49.31</u>	<u>4.90</u>
Outstanding at January 1, 2016	20,700	\$ 56.17	
Granted	-	-	
Exercised	(1,700)	44.00	
Forfeited or expired	(2,000)	62.00	
Outstanding at December 31, 2016	<u>17,000</u>	<u>\$ 56.71</u>	<u>6.19</u>
Vested or expected to vest at December 31, 2016	<u>17,000</u>	<u>\$ 56.71</u>	<u>6.19</u>
Exercisable at December 31, 2016	<u>9,800</u>	<u>\$ 52.82</u>	<u>4.98</u>

During 2016 and 2015, there were no options granted. The proceeds from options exercised were \$75,000 and \$57,000 in 2016 and 2015, respectively.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2016, and changes during the year then ended, is presented below:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted- Average Grant-Date Fair Value</u>
Nonvested at January 1, 2016	11,200	\$.81
Granted	-	-
Vested	(2,400)	.81
Forfeited	(1,600)	.81
Nonvested at December 31, 2016	<u>7,200</u>	<u>\$.81</u>

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Note 16 Stock Compensation Plans, continued

As of December 31, 2016, there was \$5,000 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 2.83 years.

Note 17 Employee Benefit Plan

The Corporation established a KSOP plan in 2005 which has a 401(k) component and an ESOP component. The Corporation has the option to make discretionary matching contributions to this plan. Beginning in 2008 through 2013, the Corporation matched 50% of employee contributions to the 401(k) component of the plan up to a maximum match of \$1,500. Beginning in 2014, the Corporation matched 100% of the first 3% plus 50% of the next 2% of employee contributions to the 401(k) component of the plan up to a maximum match of \$3,000. The Corporation's discretionary contributions for the years ended December 31, 2016 and 2015 were \$135,000 and \$72,000, respectively. At December 31, 2016 and 2015, the ESOP component of this plan held 36,848 and 32,598 shares of the Corporation's stock, respectively.

Note 18 Regulatory Matters

Banks are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: Total Risk-Based capital, Tier 1 capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Leverage capital, which is Tier 1 capital to adjusted total assets (as defined). Management believes as of December 31, 2016 and 2015 that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale and goodwill.

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 18 Regulatory Matters, continued

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.

Management believes that, as of December 31, 2016 and 2015, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

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

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 27,620	15.56%	\$ 14,199	8.00%	\$ 17,749	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 25,883	14.58%	\$ 10,649	6.00%	\$ 14,199	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 25,883	14.58%	\$ 7,987	4.50%	\$ 11,537	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 25,883	9.24%	\$ 11,210	4.00%	\$ 14,013	5.00%
As of December 31, 2015:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 25,557	16.30%	\$ 12,545	8.00%	\$ 15,681	10.00%
Tier 1 Capital (to Risk- weighted Assets)	\$ 23,818	15.19%	\$ 9,409	6.00%	\$ 12,545	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 23,818	15.19%	\$ 7,056	4.50%	\$ 10,193	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 23,818	8.88%	\$ 10,724	4.00%	\$ 13,405	5.00%

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
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Note 19 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.

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

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 19 Fair Value Measurements, continued

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

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

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

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

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 19 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands). At December 31, 2016 and 2015, there were no financial liabilities measured at fair value on a recurring basis.

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2016:				
Available-For-Sale				
U.S. Treasury notes	\$ 24,854	\$ -	\$ -	\$ 24,854
U.S. Government agencies	-	12,605	-	12,605
U.S. Government agency mortgage- backed securities	-	1,219	-	1,219
Collateralized mortgage obligations	-	11,562	-	11,562
Corporate securities	-	509	-	509
Obligations of states and political subdivisions	-	22,283	-	22,283
Other investments	-	1	-	1
Totals	<u>\$ 24,854</u>	<u>\$ 48,179</u>	<u>\$ -</u>	<u>\$ 73,033</u>
December 31, 2015:				
Available-For-Sale				
U.S. Treasury notes	\$ 12,945	\$ -	\$ -	\$ 12,945
U.S. Government agencies	-	17,923	-	17,923
U.S. Government agency mortgage- backed securities	-	2,433	-	2,433
Collateralized mortgage obligations	-	14,281	-	14,281
Corporate securities	-	496	-	496
Obligations of states and political subdivisions	-	21,187	-	21,187
Totals	<u>\$ 12,945</u>	<u>\$ 56,320</u>	<u>\$ -</u>	<u>\$ 69,265</u>

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 19 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2016:				
Impaired loans	\$ -	\$ 2,081	\$ -	\$ 2,081
Less specific valuation allowance for possible loan losses	-	(188)	-	(188)
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,893</u>	<u>\$ -</u>	<u>\$ 1,893</u>
December 31, 2015:				
Impaired loans	\$ -	\$ 1,677	\$ -	\$ 1,677
Less specific valuation allowance for possible loan losses	-	(254)	-	(254)
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,423</u>	<u>\$ -</u>	<u>\$ 1,423</u>

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, are remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2016 and 2015, there was no other real estate owned by the Corporation.

During 2016 and 2015, there were no charge-offs recorded at the time of foreclosure. During 2016 and 2015, there were no writedowns recorded subsequent to foreclosure. Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 20 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, 2016 and 2015 are as follows (in thousands):

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 5,994	\$ 5,994	\$ 4,907	\$ 4,907
Interest-bearing deposits	42,873	42,873	41,380	41,894
Investment securities	73,033	73,033	69,265	69,265
FHLB stock	343	343	349	349
Loans held-for-sale	392	392	371	371
Loans, net	154,198	147,824	144,668	143,752
Bank-owned life insurance	6,062	6,062	4,293	4,293
Accrued interest receivable	818	818	802	802
Financial liabilities:				
Deposits	260,663	260,568	244,158	222,249
FHLB advances	500	500	500	500
Accrued interest payable	27	27	33	33

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

Note 21 Acquisition

HFG Trust, LLC, a wholly owned subsidiary of the Bank was established effective January 1, 2016. Effective January 1, 2016, HFG Holdings, LLC, a newly established merger subsidiary of the Corporation, and Haberling Financial Group, Inc. merged. After the merger, HFG Holdings, LLC was merged into HFG Trust, LLC. Pursuant to the merger agreement, 41,600 shares of common stock in the Corporation were issued to shareholders of Haberling Financial Group, Inc.

The total purchase price for the acquisition was allocated based on the estimated fair values of the assets acquired as set forth below (in thousands):

Other investments	\$ 1
Premises and equipment	25
Goodwill	<u>2,473</u>
Total	<u><u>\$ 2,499</u></u>

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	ELIMINATIONS	CONSOLIDATED BALANCES 2016
ASSETS					
Cash and due from banks	\$ 329	\$ 5,558	\$ 107	\$ -	\$ 5,994
Interest-bearing deposits in financial institutions maturing in less than three months	-	34,144	-	-	34,144
Total cash and cash equivalents	329	39,702	107	-	40,138
Interest-bearing deposits in financial institutions maturing in more than three months	-	8,729	-	-	8,729
Investment in subsidiary	28,400	3,326	-	(31,726)	-
Investment securities	-	73,032	1	-	73,033
Federal Home Loan Bank stock, at cost	-	343	-	-	343
Loans held-for-sale	-	392	-	-	392
Loans, net of deferred loan fees and allowance for loan losses	-	154,198	-	-	154,198
Premises and equipment, net of accumulated depreciation	-	2,801	60	-	2,861
Bank-owned life insurance	-	6,062	-	-	6,062
Goodwill	-	-	2,473	-	2,473
Accrued interest receivable	-	818	-	-	818
Other assets	-	365	772	-	1,137
Total Assets	\$ 28,729	\$ 289,768	\$ 3,413	\$ (31,726)	\$ 290,184
LIABILITIES					
Deposits	\$ -	\$ 260,663	\$ -	\$ -	\$ 260,663
Advances from Federal Home Loan Bank	-	500	-	-	500
Other liabilities:					
Accrued interest payable	-	27	-	-	27
Accrued expenses and other liabilities	-	178	87	-	265
Total other liabilities	-	205	87	-	292
Total Liabilities	-	261,368	87	-	261,455
SHAREHOLDERS' EQUITY					
Common stock, \$1 par value:					
Authorized - 1,000,000 shares					
Issued and outstanding - 502,932 shares	503	401	-	(401)	503
Additional paid-in capital	13,873	14,453	3,249	(17,702)	13,873
Retained earnings	14,310	13,503	77	(13,580)	14,310
Accumulated other comprehensive income	43	43	-	(43)	43
Total Shareholders' Equity	28,729	28,400	3,326	(31,726)	28,729
Total Liabilities and Shareholders' Equity	\$ 28,729	\$ 289,768	\$ 3,413	\$ (31,726)	\$ 290,184

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	ELIMINATIONS	CONSOLIDATED BALANCES 2016
Interest income					
Interest and fees on loans	\$ -	\$ 7,422	\$ -	\$ -	\$ 7,422
Interest on investment securities	-	1,167	-	-	1,167
Interest on federal funds sold and interest-bearing deposits with financial institutions	-	269	-	-	269
Total interest income	-	8,858	-	-	8,858
Interest expense					
On deposits	-	356	-	-	356
On borrowed funds	-	25	-	-	25
Total interest expense	-	381	-	-	381
Net interest income	-	8,477	-	-	8,477
Provision for loan losses	-	-	-	-	-
Net interest income after provision for loan losses	-	8,477	-	-	8,477
Non-interest income					
Service charges and fees on deposit accounts	-	330	-	-	330
Equity in undistributed income of subsidiary	1,982	284	-	(2,266)	-
Dividend income from subsidiary	1,474	-	-	(1,474)	-
Mortgage broker fees	-	8	-	-	8
Earnings on bank-owned life insurance	-	169	-	-	169
Net gain on sales of loans	-	318	-	-	318
Income from fiduciary activities	-	-	2,753	-	2,753
Other	-	404	27	-	431
Total non-interest income	3,456	1,513	2,780	(3,740)	4,009
Non-interest expense					
Salaries and employee benefits	2	3,919	2,026	-	5,947
Occupancy	-	460	95	-	555
Furniture and equipment	-	287	13	-	300
Data processing	1	380	98	-	479
Professional fees	2	232	23	-	257
Other operating expenses	-	1,256	241	-	1,497
Total non-interest expense	5	6,534	2,496	-	9,035
Net Income	\$ 3,451	\$ 3,456	\$ 284	\$ (3,740)	\$ 3,451

See Independent Auditor's Report.

**COMMUNITY FIRST BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)**

	2016	2015
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 5,558	\$ 4,907
Interest-bearing deposits in financial institutions maturing in less than three months	34,144	26,732
Total cash and cash equivalents	39,702	31,639
Interest-bearing deposits in financial institutions maturing in more than three months	8,729	14,648
Investment in subsidiary	3,326	-
Investment securities	73,032	69,265
Federal Home Loan Bank stock, at cost	343	349
Loans held-for-sale	392	371
Loans, net of deferred loans fees and allowance for loan losses	154,198	144,668
Premises and equipment, net of accumulated depreciation	2,801	2,822
Bank-owned life insurance	6,062	4,293
Accrued interest receivable	818	802
Other assets	365	300
Total Assets	\$ 289,768	\$ 269,157
 LIABILITIES		
Deposits	\$ 260,663	\$ 244,158
Advances from Federal Home Loan Bank	500	500
Other liabilities:		
Accrued interest payable	27	33
Accrued expenses and other liabilities	178	176
Total other liabilities	205	209
Total Liabilities	261,368	244,867
 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	14,453	11,896
Retained earnings	13,503	11,521
Accumulated other comprehensive income	43	472
Total Shareholder's Equity	28,400	24,290
Total Liabilities and Shareholder's Equity	\$ 289,768	\$ 269,157

See Independent Auditor's Report.

**COMMUNITY FIRST BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)**

	2016	2015
Interest income		
Interest and fees on loans	\$ 7,422	\$ 6,998
Interest on investment securities	1,167	1,149
Interest on federal funds sold and interest-bearing deposits with financial institutions	269	227
Total interest income	8,858	8,374
Interest expense		
On deposits	356	371
On borrowed funds	25	25
Total interest expense	381	396
Net interest income	8,477	7,978
Provision for loan losses	-	45
Net interest income after provision for loan losses	8,477	7,933
Non-interest income		
Service charges and fees on deposit accounts	330	339
Equity in undistributed income of subsidiary	284	-
Mortgage broker fees	8	26
Earnings on bank-owned life insurance	169	121
Net gain on sales of loans	318	197
Other	404	395
Total non-interest income	1,513	1,078
Non-interest expense		
Salaries and employee benefits	3,919	3,593
Occupancy	460	450
Furniture and equipment	287	195
Data processing	380	321
Professional fees	232	310
Other operating expenses	1,256	1,329
Total non-interest expense	6,534	6,198
Net Income	\$ 3,456	\$ 2,813

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance at January 1, 2015	\$ 401	\$ 11,825	\$ 9,896	\$ 571	\$ 22,693
Capital injection from parent company		1			1
Stock option compensation expense		2			2
Restricted stock compensation expense		9			9
Directors stock compensation expense		59			59
Net income for the year ended December 31, 2015			2,813		2,813
Unrealized loss on available-for-sale securities				(99)	(99)
Dividends paid - \$2.97 per share			(1,188)		(1,188)
Balance at December 31, 2015	401	11,896	11,521	472	24,290
Capital injection from parent company - HFG acquisition		2,499			2,499
Stock option compensation expense		2			2
Restricted stock compensation expense		6			6
Directors stock compensation expense		50			50
Net income for the year ended December 31, 2016			3,456		3,456
Unrealized loss on available-for-sale securities				(429)	(429)
Dividends paid - \$3.68 per share			(1,474)		(1,474)
Balance at December 31, 2016	<u>\$ 401</u>	<u>\$ 14,453</u>	<u>\$ 13,503</u>	<u>\$ 43</u>	<u>\$ 28,400</u>

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,456	\$ 2,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	376	303
Provision for loan losses	-	45
Equity in undistributed income of subsidiary	(284)	-
Net amortization on investment securities	533	601
Stock option compensation expense	2	2
Restricted stock compensation expense	6	9
Directors stock compensation expense	50	59
Earnings on bank-owned life insurance	(169)	(121)
Originations of loans held-for-sale	(18,293)	(9,506)
Proceeds from sales of loans held-for-sale	18,590	9,915
Net gain on sales of loans	(318)	(197)
Increase in net deferred loan fees	117	93
(Increase) decrease in accrued interest receivable	(16)	12
Decrease in accrued interest payable	(6)	(9)
Other	(109)	(131)
Total adjustments	<u>479</u>	<u>1,075</u>
Net Cash Provided by Operating Activities	<u>3,935</u>	<u>3,888</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in interest-bearing deposits in financial institutions maturing in more than three months	5,919	3,696
Purchases of investment securities:		
Available-for-sale	(17,020)	(17,397)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	7,965	8,973
Proceeds from principal paydowns on investment securities:		
Available-for-sale	4,326	4,819
Purchases of FHLB stock	(8)	(146)
Proceeds from redemptions of FHLB stock	14	6
Net increase in loans made to customers	(9,647)	(6,845)
Purchases of bank-owned life insurance	(1,600)	-
Net capital injection into subsidiary	(543)	-
Purchases of premises and equipment	(309)	(309)
Net Cash Used by Investing Activities	<u>\$ (10,903)</u>	<u>\$ (7,203)</u>

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, interest-bearing transaction accounts and savings	\$ 18,146	\$ (4,836)
Net decrease in time deposits	(1,641)	(1,456)
Capital injection from parent company	-	1
Dividends paid	(1,474)	(1,188)
Net Cash Provided (Used) by Financing Activities	15,031	(7,479)
Net increase (decrease) in cash and cash equivalents	8,063	(10,794)
Cash and cash equivalents at beginning of year	31,639	42,433
Cash and cash equivalents at end of year	\$ 39,702	\$ 31,639
 SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	\$ 387	\$ 405
Fair value of HFG Trust, LLC contributed by parent company	2,499	-