COMMUNITY FIRST BANCORPORATION, INC.
AND SUBSIDIARIES
KENNEWICK, WA

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2020 AND 2019

CONTENTS

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Community First Bancorporation, Inc. and Subsidiaries, which comprise the balance sheets as of December 31, 2020 and 2019 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 Subsidiaries as of December 31, 2020 and 2019 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 44-50 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 25, 2021

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 3	$ 2,213	$ 1,998
Interest-bearing deposits in financial institutions maturing in less than three months	39,705	62,226
Total cash and cash equivalents	41,918	64,224
Interest-bearing deposits in financial institutions maturing in more than three months	-	248
Investment securities - Note 4	143,243	66,531
Federal Home Loan Bank stock, at cost - Note 2	424	389
Loans held-for-sale - Note 5	12,422	5,853
Loans, net of deferred loan fees and allowance for loan losses - Note 5	284,098	198,064
Premises and equipment, net of accumulated depreciation - Note 6	7,912	6,833
Bank-owned life insurance	6,742	6,581
Goodwill - Note 7	2,473	2,473
Accrued interest receivable	2,173	1,047
Other assets	1,927	1,712
Total Assets	$ 503,332	$ 353,955
LIABILITIES		
Deposits - Note 8	$ 457,911	$ 316,378
Other liabilities:		
Accrued interest payable	26	50
Accrued expenses and other liabilities	711	443
Total other liabilities	737	493
Total Liabilities	458,648	316,871
Commitments and contingencies - Notes 6, 10, 11, 12, 13 and 14		
SHAREHOLDERS' EQUITY		
Common stock, $1 par value:		
Authorized - 1,000,000 shares		
Issued and outstanding - 574,925 and 522,149 shares at December 31, 2020 and 2019, respectively	575	522
Additional paid-in capital	18,782	14,935
Retained earnings	21,427	20,912
Accumulated other comprehensive income	3,900	715
Total Shareholders' Equity	44,684	37,084
Total Liabilities and Shareholders' Equity	$ 503,332	$ 353,955

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands, except for per share amounts)

	2020	2019
Interest income		
Interest and fees on loans	$ 12,351	$ 10,114
Interest on investment securities	2,288	1,358
Interest on federal funds sold and interest-bearing deposits with financial institutions	169	778
Total interest income	14,808	12,250
Interest expense		
On deposits	457	741
On borrowed funds	1	-
Total interest expense	458	741
Net interest income	14,350	11,509
Provision for loan losses - Note 5	345	267
Net interest income after provision for loan losses	14,005	11,242
Non-interest income		
Service charges and fees on deposit accounts	259	286
Mortgage broker fees	10	3
Earnings on bank-owned life insurance	161	171
Net gain on sales of investment securities (includes $96,000 and ($38,000) of accumulated other comprehensive income reclassifications in 2020 and 2019, respectively, for unrealized gains (losses) on available-for-sale securities)	136	131
Net gain on sales of loans	2,172	1,465
Net loss on sales of premises and equipment	-	(34)
Income from fiduciary activities	4,526	4,075
Other	1,742	1,332
Total non-interest income	9,006	7,429
Non-interest expense		
Salaries and employee benefits	16,373	10,036
Occupancy	681	694
Furniture and equipment	694	598
Data processing	704	595
Professional fees	394	260
Other operating expenses	2,733	2,430
Total non-interest expense	21,579	14,613
Net Income	$ 1,432	$ 4,058
Basic earnings per share of common stock	$ 2.73	$ 7.78
Average shares of common stock outstanding	524,797	521,366

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
Net Income	$ 1,432	$ 4,058
Other Comprehensive Income		
Securities available-for-sale:		
Reclassification adjustment for net realized gains on sales during the year	(96)	38
Change in net unrealized gains/losses during the year	3,281	1,308
Other comprehensive income	3,185	1,346
Comprehensive Income	$ 4,617	$ 5,404

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 521	$ 14,850	$ 18,418	$ (631)	$ 33,158
Sales of stock	3	247			250
Purchases of stock	(4)	(336)			(340)
Stock option compensation expense		3			3
Exercise of stock options		21			21
Restricted stock compensation expense	1	85			86
Directors stock compensation expense	1	65			66
Comprehensive income for the year ended December 31, 2019			4,058	1,346	5,404
Dividends paid - $3.00 per share			(1,564)		(1,564)
Balance at December 31, 2019	522	14,935	20,912	715	37,084
HFG profit-sharing buyout - Note 16	50	3,708			3,758
Purchases of stock	(1)	(100)			(101)
Stock option compensation expense		3			3
Exercise of stock options	1	80			81
Restricted stock compensation expense	2	76			78
Directors stock compensation expense	1	80			81
Comprehensive income for the year ended December 31, 2020			1,432	3,185	4,617
Dividends paid - $1.75 per share			(917)		(917)
Balance at December 31, 2020	$ 575	$ 18,782	$ 21,427	$ 3,900	$ 44,684

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,432	$ 4,058
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	621	643
Provision for loan losses	345	267
Net amortization on investment securities	987	578
Stock option compensation expense	3	3
Restricted stock compensation expense	78	86
Directors stock compensation expense	81	66
HFG profit-sharing buyout stock compensation expense	3,758	-
Earnings on bank-owned life insurance	(161)	(171)
Originations of loans held-for-sale	(112,979)	(75,355)
Proceeds from sales of loans held-for-sale	108,582	72,143
Net gain on sales of loans	(2,172)	(1,465)
Net gain on sales of investment securities	(136)	(131)
Net loss on sales of premises and equipment	-	34
Increase in net deferred loan fees	1,496	82
(Increase) decrease in accrued interest receivable	(1,126)	57
Increase (decrease) in accrued interest payable	(24)	23
Other	(27)	79
Total adjustments	(674)	(3,061)
Net Cash Provided by Operating Activities	758	997
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in interest-bearing deposits in financial institutions maturing in more than three months	248	736
Purchases of investment securities:		
Available-for-sale	(118,730)	(21,897)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	36,576	14,435
Proceeds from principal paydowns on investment securities:		
Available-for-sale	5,357	1,607
Proceeds from sales of investment securities:		
Available-for-sale	2,419	11,503
Purchases of FHLB stock	(696)	(25)
Proceeds from redemptions of FHLB stock	661	2
Net increase in loans made to customers	(87,875)	(8,257)
Proceeds from sales of premises and equipment	-	5
Purchases of premises and equipment	(1,620)	(498)
Net Cash Used by Investing Activities	$ (163,660)	$ (2,389)

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

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 142,893	$ 26,307
Net decrease in time deposits	(1,360)	(688)
Proceeds from sales of common stock	-	250
Proceeds from exercise of stock options	81	21
Purchases of common stock	(101)	(340)
Dividends paid	(917)	(1,564)
Net Cash Provided by Financing Activities	140,596	23,986
Net increase (decrease) in cash and cash equivalents	(22,306)	22,594
Cash and cash equivalents at beginning of year	64,224	41,630
Cash and cash equivalents at end of year	$ 41,918	$ 64,224
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 482	$ 718

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 affect 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.

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.

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 five 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, 2020 and 2019, HFG Trust, LLC had assets under management for its customers totaling $834,961,000 and $693,479,000, respectively.

Note 2 Summary of Significant Accounting Policies, continued

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.

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 (loss). 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 (loss). Gains and losses on sales of securities are determined on the specific-identification method.

Note 2 Summary of Significant Accounting Policies, continued

Investment Securities, continued

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

Federal Home Loan Bank Stock

At December 31, 2020 and 2019, the Corporation had $424,000 and $389,000, 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 2020 and 2019, 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 2020 and 2019, there were no losses incurred regarding these representations and warranties.

Loans

Loans are stated at the principal amount outstanding less net deferred loan fees and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding. Generally, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectability 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.

Note 2 Summary of Significant Accounting Policies, continued

Allowance for Loan Losses

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

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

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

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

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

Note 2 Summary of Significant Accounting Policies, continued

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 three to seven years for furniture and equipment and 30 to 40 years for buildings and improvements. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is less.

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

Other Real Estate Owned

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

Goodwill

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.

Note 2 Summary of Significant Accounting Policies, continued

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, 2020 and 2019, 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.

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, 2017 through December 31, 2020 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 2020 or 2019.

Stock-Based Compensation

The Corporation has stock-based employee and director compensation plans which are more fully described in Note 15. The Corporation has adopted authoritative guidance issued by the FASB regarding accounting for stock compensation expense. As a result of adopting the FASB authoritative guidance, the Corporation's net income is $3,920,000 and $155,000 lower for the years ended December 31, 2020 and 2019, respectively. Included in the $3,920,000 for 2020 is $3,758,000 relating to the HFG profit-sharing buy-out. Refer to Note 16 for additional information regarding this buy-out.

Comprehensive Income

The Corporation has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income and its components. These standards require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component in shareholders' equity. These items, along with net income, are components of comprehensive income. The Corporation reports comprehensive income in the statement of comprehensive income.

Note 2 Summary of Significant Accounting Policies, continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of $89,000 and $117,000 were expensed during 2020 and 2019, respectively.

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, 2020 and 2019, the book value per share is $77.72 and $71.02, respectively. At December 31, 2020 and 2019, the tangible book value per share is $73.42 and $66.29, respectively.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Corporation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Corporation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Corporation has evaluated subsequent events from December 31, 2020 through March 25, 2021, the date the financial statements were available to be issued. Refer to Note 20 for information regarding the subsequent events identified by the Corporation.

Accounting Standards Adopted in 2020 and 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Corporation's revenue is composed of net interest income and non-interest income. The scope of the guidance explicitly excludes net interest income, as well as many other revenues for financial assets and liabilities including loans, leases, securities and derivatives. Accordingly, the majority of the Corporation's revenues were not affected. Adoption of ASU No. 2014-09, which was effective for the Corporation on January 1, 2019, did not have a material impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Adopted in 2020 and 2019, continued

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The guidance also changes certain disclosure requirements and other aspects of current accounting principles. Adoption of ASU No. 2016-01, which was effective for the Corporation on January 1, 2019, did not have a material impact on the Corporation's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment provides guidance on eight specific cash flow issues, including the following which may affect the Corporation: (1) debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities and (2) proceeds from the settlement of claims, and proceeds from the settlement of bank-owned life insurance policies, should be classified as cash flows from investing activities. Cash payments for premiums on bank-owned life insurance may be classified as cash flows for investing or operating activities. The amendments in this update are effective for entities other than public business entities for fiscal years beginning after December 15, 2018. Implementation of this standard, which was effective for the Corporation on January 1, 2019, did not have a significant impact on the Corporation's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For entities other than public entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments of this update are applied on a modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. Implementation of this standard, which was effective for the Corporation on January 1, 2020, did not have a significant impact on the Corporation's consolidated financial statements.

The FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The standard is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Implementation of this standard, which was effective for the Corporation on January 1, 2020, did not have a significant impact on the Corporation's consolidated financial statements.

Note 2 Summary of Significant Accounting Policies, continued

Accounting Standards Pending Adoption

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is 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 balance sheet 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 were originally effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021; however, in July 2020, the FASB voted to delay the effective date of this accounting standard for one year due to the unprecedented challenges of the COVID-19 pandemic. Therefore, the amendments in this update are now effective for fiscal years beginning after December 15, 2021 and interim periods within those fiscal years beginning after December 15, 2022. The Corporation is evaluating the potential impact of the amendment on the Corporation's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update should be applied on a prospective basis. For non-public business entities, the amendments are effective for fiscal years beginning after December 15, 2021. Implementation of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is 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. For non-public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, 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.

Note 3 Restrictions on Cash and Due from Banks

During 2020, the Federal Reserve Board announced that the reserve requirement ratios would be reduced to zero percent effective March 26, 2020. This action eliminated the reserve requirements for all depository institutions. Prior to March 26, 2020, the Corporation was required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2019 was $8,213,000.

Note 4 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2020 are as follows (in thousands):

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 4,991	$ 106	$ -	$ 5,097
U.S. Government agencies	9,188	4	(15)	9,177
U.S. Government agency mortgage-backed securities	10,511	64	(1)	10,574
Collateralized mortgage obligations	23,519	276	(46)	23,749
Obligations of state and political subdivisions	85,130	3,711	(231)	88,610
Corporate securities	6,003	32	-	6,035
Other investments	1	-	-	1
Total available-for-sale securities	$ 139,343	$ 4,193	$ (293)	$ 143,243

The balance sheet as of December 31, 2020 reflects the fair value of available-for-sale securities in the amount of $143,243,000. A net unrealized gain of $3,900,000 is in the available-for-sale investment securities balance. The unrealized gain is included in shareholders' equity.

Note 4 Investment Securities, continued

The amortized cost and fair values of investment securities at December 31, 2019 are as follows (in thousands):

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury notes	$ 14,981	$ 35	$ (1)	$ 15,015
U.S. Government agencies	4,238	9	(3)	4,244
U.S. Government agency mortgage-backed securities	466	1	(4)	463
Collateralized mortgage obligations	8,567	2	(54)	8,515
Obligations of state and political subdivisions	37,563	937	(207)	38,293
Other investments	1	-	-	1
Total available-for-sale securities	$ 65,816	$ 984	$ (269)	$ 66,531

The balance sheet as of December 31, 2019 reflects the fair value of available-for-sale securities in the amount of $66,531,000. A net unrealized gain of $715,000 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, 2020, 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	$ 8,975	$ 9,021
After one year through five years	19,409	19,925
After five years through ten years	27,499	28,471
After ten years	49,430	51,503
	105,313	108,920
U.S. Government agency mortgage-backed securities	10,511	10,574
Collateralized mortgage obligations	23,519	23,749
Totals	$ 139,343	$ 143,243

Investment securities with fair market values of $22,154,000 and $13,481,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Note 4 Investment Securities, continued

During 2020 and 2019, the Corporation received proceeds totaling $2,419,000 and $11,503,000, respectively, from sales of available-for-sale investment securities. These sales resulted in gross realized gains of $136,000 and $133,000 and gross realized losses of $-0- and $2,000, respectively. During 2020 and 2019, the Corporation received proceeds totaling $661,000 and $2,000, 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, 2020 and 2019, 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, 2020:						
Federal agencies	$ 16,835	$ (61)	$ 44	$ (1)	$ 16,879	$ (62)
Municipals	14,987	(231)	-	-	14,987	(231)
Total	$ 31,822	$ (292)	$ 44	$ (1)	$ 31,866	$ (293)
December 31, 2019:						
Federal agencies	$ 5,597	$ (38)	$ 6,985	$ (24)	$ 12,582	$ (62)
Municipals	9,324	(204)	518	(3)	9,842	(207)
Total	$ 14,921	$ (242)	$ 7,503	$ (27)	$ 22,424	$ (269)

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, 2020, the 17 debt securities with unrealized losses have depreciated less than 1% from the Corporation's amortized cost basis. These securities are primarily guaranteed by either the U.S. Government or other governments. The unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 5 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Commercial, agricultural and industrial loans	$ 84,206	$ 14,428
Real estate (RE) loans:		
Construction, land and land development	21,062	25,026
Residential 1-4 family	57,924	40,503
Commercial RE	133,679	122,851
Consumer loans	3,945	3,463
Overdrafts	160	245
	300,976	206,516
Less: Net deferred loan fees	(1,956)	(460)
Allowance for loan losses	(2,500)	(2,139)
Loans, Net	$ 296,520	$ 203,917

At December 31, 2020 and 2019, Residential 1-4 family loans shown above include mortgage loans held-for-sale totaling $12,422,000 and $5,853,000, respectively.

At December 31, 2020 and 2019, there were no Residential 1-4 family loans in process of foreclosure.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law which introduced the Paycheck Protection Program (PPP). The goal of this program was to prevent job loss and failure of small businesses as a result of the COVID-19 pandemic. If the borrower met certain criteria, PPP loans were eligible for forgiveness under the Small Business Association's (SBA) loan forgiveness program. During 2020, the Bank originated over 600 PPP loans. At December 31, 2020, there were 497 outstanding PPP loans with balances totaling $67,215,000 included in Commercial, Agricultural and Industrial loans shown above. These loans are 100% guaranteed by the SBA.

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2020 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2020 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 84	$ 19	$ 33	$ 104	$ 53	$ 1,846	$ 2,139
Provisions, charged (credited) to income	(49)	(11)	(12)	(54)	(14)	485	345
	35	8	21	50	39	2,331	2,484
Loans charged-off	(2)	-	-	-	(2)	-	(4)
Recoveries of loans previously charged-off	17	-	-	-	3	-	20
Net recoveries	15	-	-	-	1	-	16
Balance, end of year	$ 50	$ 8	$ 21	$ 50	$ 40	$ 2,331	$ 2,500
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	50	8	21	50	40	2,331	2,500
Balance, end of year	$ 50	$ 8	$ 21	$ 50	$ 40	$ 2,331	$ 2,500
Loans:							
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 208	$ 358	$ -		$ 566
Ending balance: Collectively evaluated for impairment	84,206	21,062	57,716	133,321	4,105		300,410
Ending balance total loans	$ 84,206	$ 21,062	$ 57,924	$ 133,679	$ 4,105		$ 300,976

Note 5 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2019 are summarized as follows (in thousands):

	Commercial, Agricultural and Industrial	Construction, Land and Land Development	Residential 1-4 Family	Commercial Real Estate	Consumer and Other	Unallocated	2019 Total
Allowance for Loan Losses:							
Balance, beginning of year	$ 54	$ 6	$ 76	$ 37	$ 44	$ 1,716	$ 1,933
Provisions, charged (credited) to income	75	13	(43)	67	25	130	267
	129	19	33	104	69	1,846	2,200
Loans charged-off	(53)	-	-	-	(16)	-	(69)
Recoveries of loans previously charged-off	8	-	-	-	-	-	8
Net charge-offs	(45)	-	-	-	(16)	-	(61)
Balance, end of year	$ 84	$ 19	$ 33	$ 104	$ 53	$ 1,846	$ 2,139
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 1	$ -	$ -	$ -	$ 1
Ending balance: Collectively evaluated for impairment	84	19	32	104	53	1,846	2,138
Balance, end of year	$ 84	$ 19	$ 33	$ 104	$ 53	$ 1,846	$ 2,139
Loans:							
Ending balance: Individually evaluated for impairment	$ 66	$ 357	$ 390	$ 405	$ -		$ 1,218
Ending balance: Collectively evaluated for impairment	14,362	24,669	40,113	122,446	3,708		205,298
Ending balance total loans	$ 14,428	$ 25,026	$ 40,503	$ 122,851	$ 3,708		$ 206,516

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, 2020 and 2019 are as follows (in thousands):

	Pass	Other Assets Especially Mentioned	Sub-Standard	Doubtful	Total
December 31, 2020:					
Commercial, agricultural and industrial loans	$ 83,737	$ 469	$ -	$ -	$ 84,206
Real estate (RE) loans:					
Construction, land and land development	20,609	-	453	-	21,062
Residential 1-4 family	57,430	148	346	-	57,924
Commercial RE	129,351	2,782	1,546	-	133,679
Consumer and other loans	4,097	8	-	-	4,105
Subtotal	$ 295,224	$ 3,407	$ 2,345	$ -	300,976
Less: Net deferred loan fees					(1,956)
Total loans					$ 299,020
December 31, 2019:					
Commercial, agricultural and industrial loans	$ 14,042	$ 316	$ 70	$ -	$ 14,428
Real estate (RE) loans:					
Construction, land and land development	24,669	-	357	-	25,026
Residential 1-4 family	39,254	856	393	-	40,503
Commercial RE	119,286	1,180	2,385	-	122,851
Consumer and other loans	3,705	3	-	-	3,708
Subtotal	$ 200,956	$ 2,355	$ 3,205	$ -	206,516
Less: Net deferred loan fees					(460)
Total loans					$ 206,056

Note 5 Loans and Allowance for Loan Losses, continued

An analysis of nonaccrual loans by category at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Commercial, agriculture and industrial loans	$ -	$ 55
Real estate (RE) loans:		
Construction, land and land development	-	357
Residential 1-4 family	-	156
Commercial RE	223	223
Total nonaccrual loans	$ 223	$ 791

At December 31, 2020 and 2019, a summary of information pertaining to impaired loans is as follows (in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020:							
Commercial, agriculture and industrial loans	$ 50	$ -	$ -	$ -	$ -	$ 33	$ -
Real estate (RE) loans:							
Construction, land and land development	-	-	-	-	-	179	-
Residential 1-4 family	208	-	208	208	-	299	12
Commercial RE	515	-	358	358	-	381	10
Total	$ 773	$ -	$ 566	$ 566	$ -	$ 892	$ 22
December 31, 2019:							
Commercial, agriculture and industrial loans	$ 136	$ -	$ 66	$ 66	$ -	$ 49	$ 1
Real estate (RE) loans:							
Construction, land and land development	357	-	357	357	-	179	-
Residential 1-4 family	390	-	390	390	1	508	10
Commercial RE	561	-	405	405	-	455	12
Consumer and other loans	1	-	-	-	-	1	-
Total	$ 1,445	$ -	$ 1,218	$ 1,218	$ 1	$ 1,192	$ 23

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

Note 5 Loans and Allowance for Loan Losses, continued

Troubled Debt Restructurings

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

There were no troubled debts restructured during 2020 and 2019.

At December 31, 2020, there were troubled debts restructured in prior years totaling $343,000. At December 31, 2020, all of these restructured loans were paying in accordance to the restructured terms.

At December 31, 2019, there were troubled debts restructured in prior years totaling $427,000. At December 31, 2019, all of these restructured loans were paying in accordance to the restructured terms with the exception of one consumer loan with an outstanding balance less than $1,000 which was on nonaccrual.

At December 31, 2020, there was one loan with an outstanding balance of $1,838,000 which was modified under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the 2020 CARES Act.

The following table illustrates an age analysis of past due loans as of December 31, 2020 and 2019 (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, 2020:						
Commercial, agricultural and industrial loans	$ -	$ -	$ -	$ 84,206	$ 84,206	$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	21,062	21,062	-
Residential 1-4 family	149	223	372	57,552	57,924	-
Commercial RE	-	-	-	133,679	133,679	-
Consumer and other loans	-	-	-	4,105	4,105	-
Less: Net deferred loan fees	-	-	-	(1,956)	(1,956)	-
Total	$ 149	$ 223	$ 372	$ 298,648	$ 299,020	$ -
December 31, 2019:						
Commercial, agricultural and industrial loans	$ -	$ 55	$ 55	$ 14,373	$ 14,428	$ -
Real estate (RE) loans:						
Construction, land and land development	221	357	578	24,448	25,026	-
Residential 1-4 family	-	156	156	40,347	40,503	-
Commercial RE	-	-	-	122,851	122,851	-
Consumer and other loans	-	-	-	3,708	3,708	-
Less: Net deferred loan fees	-	-	-	(460)	(460)	-
Total	$ 221	$ 568	$ 789	$ 205,267	$ 206,056	$ -

Note 5 Loans and Allowance for Loan Losses, continued

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

Note 6 Premises and Equipment

The investment in premises and equipment at December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Land	$ 1,600	$ 1,050
Buildings	7,033	6,145
Leasehold improvements	507	507
Furniture and equipment	2,983	2,804
	12,123	10,506
Less accumulated depreciation and amortization	(4,211)	(3,673)
Premises and equipment, net	$ 7,912	$ 6,833

Depreciation and amortization on premises and equipment charged to expense totaled $541,000 and $544,000 for the years ended December 31, 2020 and 2019, respectively. Computer software, net of accumulated amortization, is included in Other Assets. Amortization on computer software charged to expense totaled $80,000 and $99,000 for the years ended December 31, 2020 and 2019, 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 10 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. During 2017, this lease was renewed through February 28, 2022. 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, 2020, this lease includes two 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. This lease is now on a month-to-month basis, since a new location has been purchased and should be ready in mid-2021.

Note 6 Premises and Equipment, continued

The Corporation recorded lease expense in the amount of $170,000 and $189,000 for the years ended December 31, 2020 and 2019, respectively. Included in the lease expense were amounts paid to related parties in the amount of $56,000 and $55,000 for the years ended December 31, 2020 and 2019, respectively.

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

2021	$	57
2022		10
2023		-
2024		-
2025		-
Total	$	67

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 2020 or 2019.

Note 8 Deposits

The carrying amounts of deposits at December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Demand	$ 196,589	$ 141,413
Interest-bearing transaction accounts	233,678	152,551
Savings	19,661	13,071
Time deposits less than $250,000	6,272	6,617
Time deposits $250,000 and over	1,711	2,726
Total deposits	$ 457,911	$ 316,378

Note 8 Deposits, continued

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

2021	$ 6,262
2022	472
2023	35
2024	1,141
2025	73
Total	$ 7,983

At December 31, 2020, there were no brokered deposits or deposits obtained from customers outside the Corporation's primary market area. At December 31, 2019, there were brokered deposits or deposits obtained from customers outside the Corporation's primary market area totaling $102,000.

Note 9 Related Party Transactions

During 2020 and 2019, 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, 2020	$ -	$ -	$ -	$ -
December 31, 2019	$ -	$ 346	$ (346)	$ -

The Corporation held deposits for certain of its officers, directors and principal shareholders in the amount of $33,462,000 and $31,765,000 at December 31, 2020 and 2019, respectively.

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

The Corporation paid a company owned by an officer of HFG Trust, LLC amounts totaling $19,000 and $38,000 during 2020 and 2019, respectively, for expenses relating to signage.

Note 10 Financial Instruments with Off-Balance-Sheet Risk

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

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

	2020	2019
Commitments to extend credit	$ 37,463	$ 40,841
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 2020 or 2019. The Corporation has not incurred any material losses on its commitments in 2020 or 2019.

Note 11 Compensated Absences

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

Note 12 Commitments and Contingent Liabilities

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

The Bank participates in the Washington State Public Depository program. In February 2009, new standards were adopted which require institutions to collateralize uninsured public deposits at 100 percent. 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, 2020 and 2019, the Corporation had pledged investment securities with a carrying amount of $11,156,000 and $13,475,000, respectively, to secure public deposits. Refer to Note 4 for additional information.

The Corporation entered into employment agreements with certain advisors of HFG Trust, LLC which provided 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 provided for the redemption of the phantom units upon termination of employment which occurs on the (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). At the end of 2019, the Corporation reached an agreement with these advisors to accelerate the termination of these agreements to December 31, 2020. Refer to Note 16 for additional information.

Note 13 Lines of Credit

The Corporation has established an unsecured line of credit in the amount of $3,000,000 for overnight purchase of federal funds. This line may be cancelled without prior notification. There were no outstanding balances on this line of credit at December 31, 2020 and 2019.

The Corporation also has a credit line with the Federal Home Loan Bank of Des Moines totaling 45% of assets which had available borrowings of $213,945,000 at December 31, 2020 assuming assets are pledged accordingly. There were no outstanding balances on this line of credit at December 31, 2020 and 2019. This line is collateralized by pledged loans and investment securities with a carrying amount of $55,960,000 and $36,815,000, respectively, at December 31, 2020 and 2019.

Note 14 Concentration of Credit Risk

The Corporation maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank. At December 31, 2020 and 2019, the Corporation had $5,353,000 and $7,077,000, respectively, in uninsured deposits in other financial institutions. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

The Corporation has credit risk exposure, including off-balance-sheet credit risk exposure, as disclosed in Notes 5 and 10. Most of the Corporation's business activity is with customers located in the state of Washington. The ultimate collectability 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 15 Stock Compensation Plans

On April 23, 2019, the shareholders of the Corporation approved the "2019 Employee Stock Option and Equity Compensation Plan." This Plan provides for stock awards in the form of stock options, stock appreciation rights and restricted stock grants. 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, 2020 and 2019, there were 51,760 and 59,750, respectively, 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 10 years. Options are 100% vested five years after the grant date. Restricted stock grants vest ratably over a period of two to ten years from the date of grant depending on the terms of the agreement.

Prior to adoption of this Plan, the Corporation had a share-based compensation plan that was ratified by the shareholders during 2009 ("2009 Plan"). The 2009 Plan provided for stock awards in the form of stock options, restricted stock grants, restricted stock units and stock appreciation rights. It allowed for both incentive and non-qualified stock options to be granted. The 2009 Plan allowed grants up to 65,000 shares to certain key employees and directors. 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 10 years. Options are 100% vested five years after the grant date. Restricted stock grants vest ratably over a period of two to ten years from the date of grant depending on the terms of the agreement. This plan was terminated with the adoption of the "2019 Employee Stock Option and Equity Compensation Plan." The termination of this plan does not affect the terms of any outstanding options granted under this plan.

Note 15 Stock Compensation Plans, continued

A summary of the Corporation's restricted stock awards and activity under these plans for the years ending December 31, 2020 and 2019 is presented below:

	Restricted Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2019	3,600	$ 80.50
Granted	883	79.01
Forfeited	-	-
Vested	(1,220)	80.50
Nonvested at December 31, 2019	3,263	$ 79.81
Outstanding at January 1, 2020	3,263	$ 79.81
Granted	3,162	83.25
Forfeited	(1,092)	80.74
Vested	(1,398)	80.17
Nonvested at December 31, 2020	3,935	$ 82.18

Under the provisions of these plans, grantees of restricted stock awards have all the rights of a shareholder (including voting, dividend and liquidation rights). Stock compensation expense totaling $78,000 and $86,000 was recorded during 2020 and 2019, respectively, relating to restricted stock awards. At December 31, 2020 and 2019, there was unrecognized compensation expense relating to these awards totaling $340,000 and $156,000, respectively, which will be recognized over 8.25 years.

During 2013, the Corporation approved a stock grant program for directors' compensation. Under this program, the equivalent number of shares of the Corporation's common stock will be issued at the beginning of each year based on the prior year's stock compensation expense divided by the fair value of the Corporation's common stock. During 2020 and 2019, stock compensation expense totaling $81,000 and $66,000, respectively, was recorded relating to directors' compensation. During 2020 and 2019, 828 and 875 shares, respectively, were issued to directors relating to this program.

Note 15 Stock Compensation Plans, continued

Prior to the adoption of the 2019 Plan, the Corporation had two share-based compensation plans. Under these 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 10 years. Options vest 20% annually for five years. These plans were terminated with the adoption of the "2019 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 $3,000 for the years ended December 31, 2020 and 2019. 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, 2020 and 2019.

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. The following assumptions were used regarding the 2020 and 2019 grants of stock options:

	2020	2019
Expected volatility	7.19%	7.08%
Weighted-average volatility	7.19%	7.08%
Expected dividends	4.30%	4.78%
Expected term (in years)	10 yrs	10 yrs
Risk-free rate	0.46-0.64%	2.05%

Note 15 Stock Compensation Plans, continued

A summary of option activity under the plans as of December 31, 2020 and 2019, and changes during the years then ended, are presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2019	23,500	$ 67.29	
Granted	9,500	77.74	
Exercised	(343)	62.00	
Forfeited or expired	-	-	
Outstanding at December 31, 2019	32,657	$ 70.39	7.31
Vested or expected to vest at December 31, 2019	32,657	$ 70.39	7.31
Exercisable at December 31, 2019	14,857	$ 64.02	5.53
Outstanding at January 1, 2020	32,657	$ 70.39	
Granted	4,000	75.00	
Exercised	(1,000)	80.50	
Forfeited or expired	(1,500)	80.50	
Outstanding at December 31, 2020	34,157	$ 70.39	6.64
Vested or expected to vest at December 31, 2020	34,157	$ 70.39	6.64
Exercisable at December 31, 2020	17,957	$ 65.80	5.09

During 2020 and 2019, there were 4,000 and 9,500 options granted, respectively. The proceeds from options exercised were $81,000 and $21,000 in 2020 and 2019, respectively.

A summary of the status of the Corporation's nonvested shares relating to stock options as of December 31, 2020, and changes during the year then ended, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2020	17,800	$ .87
Granted	4,000	.28
Vested	(4,100)	.87
Forfeited	(1,500)	1.14
Nonvested at December 31, 2020	16,200	$ .69

Note 15 Stock Compensation Plans, continued

As of December 31, 2020, there was $9,000 of total unrecognized compensation cost related to nonvested shares of stock options granted under the Plans. That cost is expected to be recognized over a weighted-average period of 4.75 years.

Note 16 HFG Profit-Sharing Buyout

As discussed in Note 12, the Corporation had employment agreements with certain advisors of HFG Trust, LLC which entitled the advisors to phantom stock relating to Modified Net Income of HFG and upon termination. At the end of 2019, the Corporation reached an agreement with the advisors to terminate these employment agreements as of December 31, 2020. As a result of the termination of these agreements, the Corporation issued 50,110 shares of common stock to these advisors and recorded stock compensation expense totaling $3,758,000, as well as expensed and made cash payments in the amount of $470,875 to these advisors, during 2020.

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. The Corporation matches 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, 2020 and 2019 were $208,000 and $180,000, respectively. At December 31, 2020 and 2019, the ESOP component of this plan held 47,583 shares of the Corporation's common stock.

Note 18 Regulatory Capital

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 (set forth in the table on page 38) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

Note 18 Regulatory Capital, continued

In addition to these requirements, banking organizations must maintain a 2.50% capital conservation buffer consisting of common Tier I equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2019, the Bank was required to establish a capital conservation buffer of 2.50%, increasing the minimum required total risk-based capital, Tier I risk-based and common equity Tier I capital to risk-weighted assets it must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

As of December 31, 2020, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum common equity risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table listed below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule 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 included a multiyear transition period from January 1, 2015 through December 31, 2019 and is now fully in effect.

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

Note 18 Regulatory Capital, continued

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, 2020:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 40,668	15.38%	$ 21,147	8.00%	$ 26,434	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 38,118	14.42%	$ 15,860	6.00%	$ 21,147	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 38,118	14.42%	$ 11,895	4.50%	$ 17,182	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 38,118	7.94%	$ 19,192	4.00%	$ 23,990	5.00%
As of December 31, 2019:						
Total Risk-based Capital (to Risk-weighted Assets)	$ 35,595	15.68%	$ 18,164	8.00%	$ 22,705	10.00%
Tier 1 Capital (to Risk-weighted Assets)	$ 33,406	14.71%	$ 13,623	6.00%	$ 18,164	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	$ 33,406	14.71%	$ 10,217	4.50%	$ 14,758	6.50%
Leverage Capital (to Adjusted Total Assets)	$ 33,406	9.64%	$ 13,855	4.00%	$ 17,319	5.00%

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.

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.

Note 19 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands). At December 31, 2020 and 2019, there were no financial liabilities measured at fair value on a recurring basis.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020:				
Available-for-Sale:				
U.S. Treasury notes	$ 5,097	$ -	$ -	$ 5,097
U.S. Government agencies	-	9,177	-	9,177
U.S. Government agency mortgage-backed securities	-	10,574	-	10,574
Collateralized mortgage obligations	-	23,749	-	23,749
Obligations of state and political subdivisions	-	88,610	-	88,610
Corporate securities	-	6,035	-	6,035
Other investments	-	1	-	1
Totals	$ 5,097	$ 138,146	$ -	$ 143,243
December 31, 2019:				
Available-for-Sale:				
U.S. Treasury notes	$ 15,015	$ -	$ -	$ 15,015
U.S. Government agencies	-	4,244	-	4,244
U.S. Government agency mortgage-backed securities	-	463	-	463
Collateralized mortgage obligations	-	8,515	-	8,515
Obligations of state and political subdivisions	-	38,293	-	38,293
Other investments	-	1	-	1
Totals	$ 15,015	$ 51,516	$ -	$ 66,531

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

Note 19 Fair Value Measurements, continued

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value (in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020:				
Impaired loans	$ -	$ 566	$ -	$ 566
Less specific valuation allowance for possible loan losses	-	-	-	-
Impaired loans, net	$ -	$ 566	$ -	$ 566
December 31, 2019:				
Impaired loans	$ -	$ 1,218	$ -	$ 1,218
Less specific valuation allowance for possible loan losses	-	(1)	-	(1)
Impaired loans, net	$ -	$ 1,217	$ -	$ 1,217

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, 2020 and 2019, there was no other real estate owned by the Corporation.

During 2020 and 2019, there were no charge-offs recorded at the time of foreclosure. During 2020 and 2019, there were no writedowns recorded subsequent to foreclosure. Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Corporation's provision for loan losses. Regulatory guidelines require the Corporation to reevaluate the fair value of other real estate owned on at least an annual basis.

Note 20 Subsequent Events

In January 2021, HFG Trust, LLC entered into a stock sale agreement with Richard D. Prime, the sole shareholder of Prime Wealth Management, Inc. (PWM), to acquire 100% of the stock of PWM. The purchase price is $533,500, plus an additional $16,500 as consideration for the restrictive covenants included in the agreement. If the gross revenue for 2021 is less than $360,000, the purchase price is adjusted per the terms of the agreement. The agreement requires an initial payment of $200,000 which includes the $16,500 payment. The remaining $350,000 is an unsecured promissory note which will be paid in 60 equal monthly installments of $6,304.51. The effective date of the purchase is April 1, 2021.

As of March 24, 2021, the Bank has originated 279 loans totaling $44,580,000 to borrowers under the additional Paycheck Protection Program (PPP) that was included in the Consolidated Appropriations Act, 2021, which was signed into law on December 27, 2020.

OTHER FINANCIAL INFORMATION

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2020
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	ELIMINATIONS	CONSOLIDATED BALANCES 2020
ASSETS					
Cash and due from banks	$ -	$ 2,213	$ -	$ -	$ 2,213
Interest-bearing deposits in financial institutions maturing in less than three months	193	39,074	438	-	39,705
Total cash and cash equivalents	193	41,287	438	-	41,918
Investment in subsidiary	44,491	3,953	-	(48,444)	-
Investment securities	-	143,242	1	-	143,243
Federal Home Loan Bank stock, at cost	-	424	-	-	424
Loans held-for-sale	-	12,422	-	-	12,422
Loans, net of deferred loan fees and allowance for loan losses	-	284,098	-	-	284,098
Premises and equipment, net of accumulated depreciation	-	7,862	50	-	7,912
Bank-owned life insurance	-	6,742	-	-	6,742
Goodwill	-	-	2,473	-	2,473
Accrued interest receivable	-	2,173	-	-	2,173
Other assets	-	645	1,282	-	1,927
Total Assets	$ 44,684	$ 502,848	$ 4,244	$ (48,444)	$ 503,332
LIABILITIES					
Deposits	$ -	$ 457,911	$ -	$ -	$ 457,911
Other liabilities:					
Accrued interest payable	-	26	-	-	26
Accrued expenses and other liabilities	-	420	291	-	711
Total other liabilities	-	446	291	-	737
Total Liabilities	-	458,357	291	-	458,648
SHAREHOLDERS' EQUITY					
Common stock, $1 par value:					
Authorized - 1,000,000 shares					
Issued and outstanding - 574,925 shares	575	401	-	(401)	575
Additional paid-in capital	18,782	19,320	6,757	(26,077)	18,782
Retained earnings (deficit)	21,427	20,870	(2,804)	(18,066)	21,427
Accumulated other comprehensive income	3,900	3,900	-	(3,900)	3,900
Total Shareholders' Equity	44,684	44,491	3,953	(48,444)	44,684
Total Liabilities and Shareholders' Equity	$ 44,684	$ 502,848	$ 4,244	$ (48,444)	$ 503,332

See Independent Auditor's Report.

COMMUNITY FIRST BANCORPORATION, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in Thousands)

	COMMUNITY FIRST BANCORP.	COMMUNITY FIRST BANK	HFG TRUST, LLC	ELIMINATIONS	CONSOLIDATED BALANCES 2020
Interest income					
Interest and fees on loans	$ -	$ 12,351	$ -	$ -	$ 12,351
Interest on investment securities	-	2,288	-	-	2,288
Interest on federal funds sold and interest-bearing deposits with financial institutions	2	165	2	-	169
Total interest income	2	14,804	2	-	14,808
Interest expense					
On deposits	-	457	-	-	457
On borrowed funds	-	1	-	-	1
Total interest expense	-	458	-	-	458
Net interest income	2	14,346	2	-	14,350
Provision for loan losses	-	345	-	-	345
Net interest income after provision for loan losses	2	14,001	2	-	14,005
Non-interest income					
Service charges and fees on deposit accounts	-	259	-	-	259
Equity in undistributed income (loss) of subsidiary	125	(3,937)	-	3,812	-
Dividend income from subsidiary	1,415	-	-	(1,415)	-
Mortgage broker fees	-	10	-	-	10
Earnings on bank-owned life insurance	-	161	-	-	161
Net gain on sales of investment securities (includes $96,000 of accumulated other comprehensive income reclassifications for unrealized gains on available-for-sale securities)	-	136	-	-	136
Net gain on sales of loans	-	2,172	-	-	2,172
Income from fiduciary activities	-	-	4,526	-	4,526
Other	-	1,743	(1)	-	1,742
Total non-interest income	1,540	544	4,525	2,397	9,006
Non-interest expense					
Salaries and employee benefits	48	8,534	7,791	-	16,373
Occupancy	-	543	138	-	681
Furniture and equipment	144	514	36	-	694
Data processing	38	649	17	-	704
Professional fees	90	282	22	-	394
Other operating expenses	(210)	2,483	460	-	2,733
Total non-interest expense	110	13,005	8,464	-	21,579
Net Income (Loss)	$ 1,432	$ 1,540	$ (3,937)	$ 2,397	$ 1,432

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COMMUNITY FIRST BANK
BALANCE SHEETS
(BANK ONLY)
DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 2,213	$ 1,998
Interest-bearing deposits in financial institutions maturing in less than three months	39,074	61,518
Total cash and cash equivalents	41,287	63,516
Interest-bearing deposits in financial institutions maturing in more than three months	-	248
Investment in subsidiary	3,953	3,632
Investment securities	143,242	66,530
Federal Home Loan Bank stock, at cost	424	389
Loans held-for-sale	12,422	5,853
Loans, net of deferred loans fees and allowance for loan losses	284,098	198,064
Premises and equipment, net of accumulated depreciation	7,862	6,770
Bank-owned life insurance	6,742	6,581
Accrued interest receivable	2,173	1,047
Other assets	645	603
Total Assets	$ 502,848	$ 353,233
LIABILITIES		
Deposits	$ 457,911	$ 315,378
Other liabilities:		
Accrued interest payable	26	50
Accrued expenses and other liabilities	420	211
Total other liabilities	446	261
Total Liabilities	458,357	315,639
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	19,320	14,733
Retained earnings	20,870	20,745
Accumulated other comprehensive income	3,900	715
Total Shareholder's Equity	44,491	36,594
Total Liabilities and Shareholder's Equity	$ 502,848	$ 352,233

See Independent Auditor's Report.

COMMUNITY FIRST BANK
STATEMENTS OF INCOME
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
Interest income		
Interest and fees on loans	$ 12,351	$ 10,114
Interest on investment securities	2,288	1,358
Interest on federal funds sold and interest-bearing deposits with financial institutions	165	774
Total interest income	14,804	12,246
Interest expense		
On deposits	457	741
On borrowed funds	1	-
Total interest expense	458	741
Net interest income	14,346	11,505
Provision for loan losses	345	267
Net interest income after provision for loan losses	14,001	11,238
Non-interest income		
Service charges and fees on deposit accounts	259	286
Equity in undistributed income (loss) of subsidiary	(3,937)	412
Mortgage broker fees	10	3
Earnings on bank-owned life insurance	161	171
Net gain on sales of investment securities (includes $96,000 and ($38,000) of accumulated other comprehensive income reclassifications in 2020 and 2019, respectively, for unrealized gains (losses) on available-for-sale securities)	136	131
Net gain on sales of loans	2,172	1,465
Net loss on sales of premises and equipment	-	(34)
Other	1,743	1,287
Total non-interest income	544	3,721
Non-interest expense		
Salaries and employee benefits	8,534	7,005
Occupancy	543	553
Furniture and equipment	514	406
Data processing	649	556
Professional fees	282	122
Other operating expenses	2,483	2,125
Total non-interest expense	13,005	10,767
Net Income	$ 1,540	$ 4,192

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COMMUNITY FIRST BANK
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 401	$ 14,647	$ 18,636	$ (631)	$ 33,053
Stock option compensation expense		3			3
Restricted stock compensation expense		83			83
Net income for the year ended December 31, 2019			4,192		4,192
Unrealized gain on available-for-sale securities				1,346	1,346
Dividends paid - $5.20 per share			(2,083)		(2,083)
Balance at December 31, 2019	401	14,733	20,745	715	36,594
Capital injection from parent company		750			750
HFG profit-sharing buyout		3,758			3,758
Stock option compensation expense		3			3
Restricted stock compensation expense		76			76
Net income for the year ended December 31, 2020			1,540		1,540
Unrealized gain on available-for-sale securities				3,185	3,185
Dividends paid - $3.53 per share			(1,415)		(1,415)
Balance at December 31, 2020	$ 401	$ 19,320	$ 20,870	$ 3,900	$ 44,491

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COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,540	$ 4,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	590	606
Provision for loan losses	345	267
Equity in undistributed (income) loss of subsidiary	3,937	(412)
Net amortization on investment securities	987	578
Stock option compensation expense	3	3
Resticted stock compensation expense	76	83
Earnings on bank-owned life insurance	(161)	(171)
Originations of loans held-for-sale	(112,979)	(75,355)
Proceeds from sales of loans held-for-sale	108,582	72,143
Net gain on sales of loans	(2,172)	(1,465)
Net gain on sales of investment securities	(136)	(131)
Net loss on sales of premises and equipment	-	34
Increase in net deferred loan fees	1,496	82
(Increase) decrease in accrued interest receivable	(1,126)	57
Increase (decrease) in accrued interest payable	(24)	23
Other	92	125
Total adjustments	(490)	(3,533)
Net Cash Provided by Operating Activities	1,050	659
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in interest-bearing deposits in financial institutions maturing in more than three months	248	736
Purchases of investment securities:		
Available-for-sale	(118,730)	(21,897)
Proceeds from maturities and calls of investment securities:		
Available-for-sale	36,576	14,435
Proceeds from principal paydowns on investment securities:		
Available-for-sale	5,357	1,607
Proceeds from sales of investment securities:		
Available-for-sale	2,419	11,503
Purchases of FHLB stock	(696)	(25)
Proceeds from redemptions of FHLB stock	661	2
Net increase in loans made to customers	(87,875)	(8,257)
Proceeds from sales of premises and equipment	-	5
Purchases of premises and equipment	(1,607)	(497)
Capital injection into subsidiary	(500)	-
Return of capital from subsidiary	-	750
Net Cash Used by Investing Activities	$ (164,147)	$ (1,638)

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COMMUNITY FIRST BANK
STATEMENTS OF CASH FLOWS, Continued
(BANK ONLY)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Dollars in Thousands)

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing transaction accounts and savings	$ 142,893	$ 26,307
Net decrease in time deposits	(1,360)	(688)
Capital injection from parent company	750	-
Dividends paid	(1,415)	(2,083)
Net Cash Provided by Financing Activities	140,868	23,536
Net increase (decrease) in cash and cash equivalents	(22,229)	22,557
Cash and cash equivalents at beginning of year	63,516	40,959
Cash and cash equivalents at end of year	$ 41,287	$ 63,516
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	$ 482	$ 718
Increase in additional paid-in capital for HFG profit-sharing buyout stock compensation expense	3,758	-