



making it happen

2015 ANNUAL REPORT

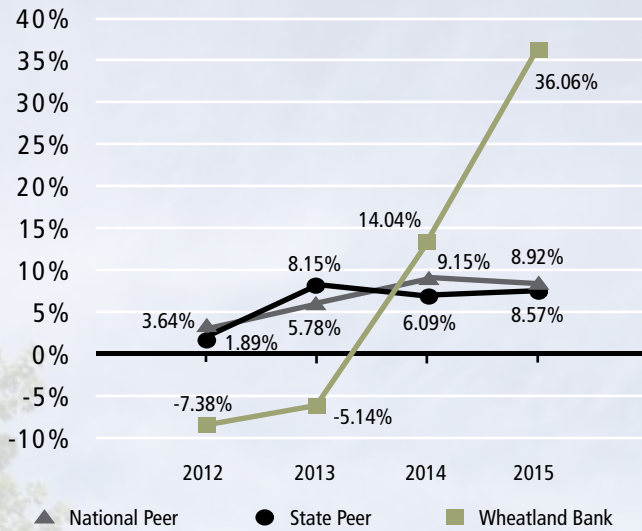
COMMUNITY FINANCIAL GROUP, INC.



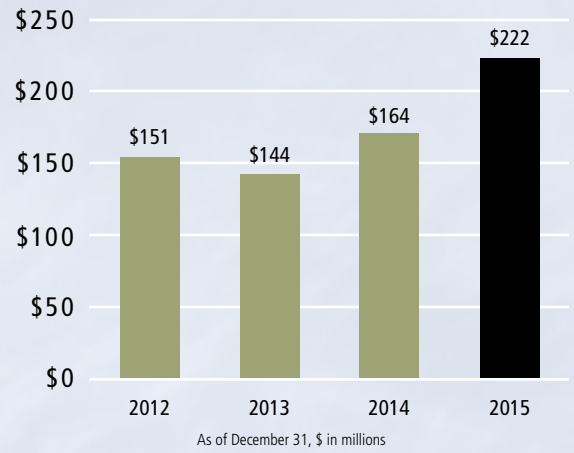


at Wheatland Bank

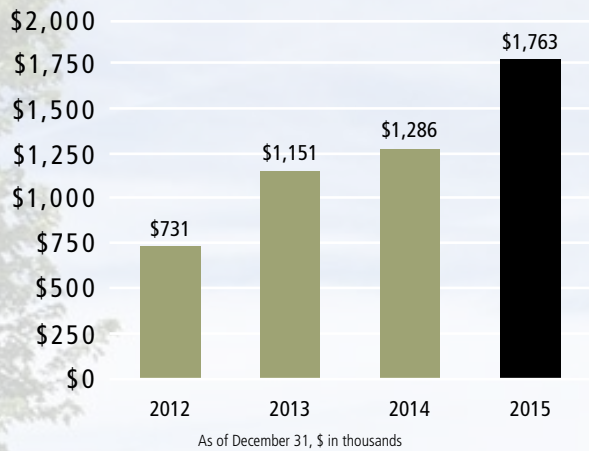
LOAN GROWTH



TOTAL LOANS OUTSTANDING



CFG NET INCOME



EARNINGS PER SHARE*



To Our Shareholders

2015 has been a record breaking year for Wheatland Bank! The highlight was Wheatland Bank's expansion into the Tri-Cities market with the opening of our 14th full service community bank branch in Pasco on February 17, 2015. Our first year in the Tri-Cities generated an all time record level of bank wide loan growth of 35% for Wheatland, which was the highest percentage of organic loan growth of any bank in the state of Washington for 2015, based on FDIC Call Report data. The new Pasco Branch and team of experienced local bankers, led by Tri-Cities team leader Steve Lancaster, developed over \$100 million of high quality new customer loan and deposit relationships for Wheatland during its first year of operation. These results are nothing short of exceptional and we look forward to the continued success at our new Pasco Branch.

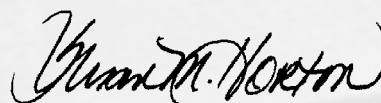
This record loan growth and related improvements in net interest income fueled increases in consolidated net income for 2015 to a record \$1.76 million, up 32% from the 2014 level of \$1.29 million. The consolidated return on average equity was 6.3% for 2015, up 27% from 2014, and CFG's 2015 consolidated earnings per share was \$1.30, an increase of 33% over the \$.98 fully diluted earnings per share in 2014. CFG and Wheatland finished 2015 with \$354 million in total assets, \$222 million in total loans and total deposits of \$319 million, leaving plenty of on balance sheet liquidity for the core deposit funding of continued loan growth. Wheatland Bank has a history of maintaining very good loan quality and 2015 was no different with \$0 in loan losses and only .70% of its total loans in a delinquent status at December 31, 2015.

A strong reflection of Wheatland Bank's continued success is the fact that for the past 36 consecutive quarters, including all the way through the Great Recession and financial industry crisis, the Wheatland Bank team of outstanding employees and directors has consistently earned the coveted 5-Star Superior rating from BauerFinancial, Inc., the nation's leading independent bank rating firm. Based on independent stock evaluations, the CFG stock market value at December 31, 2015 had appreciated by 7.7% over the fair market value at December 31, 2014, and by 28% since December 31, 2012. As a result of the strong performance, the CFG Board of Directors declared a 4% stock dividend in the first quarter of 2016, with a related stock dividend cash repurchase program, retaining additional earnings as capital for future growth.

In addition to our expansion and capital investment into the Tri-Cities market, Wheatland Bank purchased its income producing headquarters building in downtown Spokane in July of 2015. Based on our current and future occupancy needs, ownership is now preferential over leasing and is also consistent with our strategic plan to remain a locally owned independent community bank dedicated to serving the needs of eastern and central Washington businesses, farms and individuals. Amidst the sea of mergers and acquisitions in our local markets, we believe that Wheatland Bank is uniquely positioned with experienced local bankers, our decentralized branch lending structure and local decision making to deliver a more rewarding banking relationship and experience for our customers.

On behalf of the directors and employees of Wheatland Bank, thank you for your capital investment, banking business, friendships and referrals. CFG's long term, loyal shareholder base is a huge part of our success, and we don't take that for granted. It's been a great year and we are confident about Wheatland's future and our ability to continue to return good value to our shareholders.

Yours truly,



Susan M. Horton, CPA
Chairman, CEO and President

BOARD OF DIRECTORS



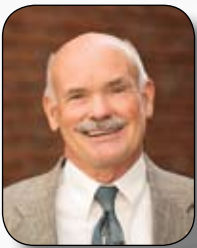
Susan M. Horton, CPA
Chairman, CEO & President
Community Financial Group, Inc.
Wheatland Bank



Dennis D. Bly
Vice Chairman
Community Financial Group, Inc.
Wheatland Bank



Howard E. Leffel
Secretary
Community Financial Group, Inc.
Wheatland Bank



Charles R. Cooper
Director
Community Financial Group, Inc.
Wheatland Bank



Donna T. Herak Bock
Director
Community Financial Group, Inc.
Wheatland Bank



Richard A. Vandervert
Director
Community Financial Group, Inc.
Wheatland Bank



Christopher D. Bell
Director
Wheatland Bank



Scott K. Jones
Director
Wheatland Bank



Marlo D. Merrell
Director
Wheatland Bank

EXECUTIVE VICE PRESIDENTS



Joe Druffel
Chief Credit Officer
Chief Compliance Officer
Wheatland Bank



Mike Palmer
Chief Banking Officer
Wheatland Bank



Allison Yarnell
Chief Financial Officer
Community Financial Group, Inc.
Wheatland Bank

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2015	2014
Assets		
Cash and due from banks	\$ 5,840,252	\$ 6,522,724
Federal funds sold and overnight deposits	<u>20,393,618</u>	<u>25,283,207</u>
Cash and cash equivalents	26,233,870	31,805,931
Interest-bearing deposits in banks	46,769,000	75,313,000
Securities available-for-sale, at fair value	35,969,983	56,848,760
Federal Home Loan Bank stock, at cost	409,000	912,300
Investment in statutory trust	124,000	124,000
Loans held for sale	530,800	345,000
Loans receivable, net of allowance for loan losses; 2015 \$3,094,183; 2014 \$3,065,568	219,180,049	161,338,212
Premises and equipment, net	15,385,573	10,039,761
Bank owned life insurance	7,175,636	2,505,741
Other real estate held-for-sale	139,500	169,741
Accrued interest receivable and other assets	<u>2,548,937</u>	<u>1,938,306</u>
Total assets	<u>\$ 354,466,348</u>	<u>\$ 341,340,752</u>
Liabilities and stockholders' equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 137,654,607	\$ 136,479,016
Interest-bearing	<u>181,576,968</u>	<u>171,637,510</u>
Total deposits	319,231,575	308,116,526
Deferred tax liability, net	561,344	613,973
Subordinated debt	4,124,000	4,124,000
Employee Stock Ownership Plan debt	496,572	607,185
Accrued interest payable and other liabilities	<u>2,010,450</u>	<u>2,149,167</u>
Total liabilities	326,423,941	315,610,851
Stockholders' equity		
Preferred stock - no par value, 300,000 shares authorized; none issued	-	-
Common stock - no par value, 2,000,000 shares authorized; Shares issued and outstanding		
December 31, 2015 - 1,336,679		
December 31, 2014 - 1,261,668	25,632,945	24,329,171
Retained earnings	2,504,196	1,744,094
Employee Stock Ownership Plan debt guarantee	(496,572)	(607,185)
Accumulated other comprehensive income (loss)	<u>401,838</u>	<u>263,821</u>
Total stockholders' equity	<u>28,042,407</u>	<u>25,729,901</u>
Total liabilities and stockholders' equity	<u>\$ 354,466,348</u>	<u>\$ 341,340,752</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2015	2014
Interest income		
Loans receivable, including fees	\$ 10,335,642	\$ 8,338,375
Interest-bearing deposits and federal funds sold	630,821	905,933
Investment securities		
Taxable	332,862	650,279
Non-taxable	337,731	252,441
Total interest income	11,637,056	10,147,028
Interest expense		
Deposits	185,452	272,135
Borrowed funds	148,847	154,847
Total interest expense	334,299	426,982
Net interest income	11,302,757	9,720,046
Provision for loan losses	—	—
Net interest income after provision for loan losses	11,302,757	9,720,046
Noninterest income		
Service charges on deposit accounts	713,990	730,754
Residential mortgage origination and sale income	257,741	207,227
Third party bankcard interchange income	645,142	611,060
Net gain (loss) on sale of available-for-sale securities	94,590	(8,916)
Net gain on other real estate held-for-sale	—	34,081
Recovery of interest and fees on loans	—	125,439
Other noninterest income	382,998	249,176
Total noninterest income	2,094,461	1,948,821
Noninterest expense		
Salaries and benefits, net of direct loan origination costs	6,297,255	5,528,993
Occupancy	1,077,192	1,052,201
Information technology	918,258	830,804
Furniture and equipment depreciation and maintenance	443,441	456,315
Legal, audit and regulatory examinations	232,791	234,458
Regulatory insurance and assessments	224,655	220,874
Supplies and postage	198,419	165,976
Excise tax	177,659	153,929
Other operating expenses	1,346,995	1,216,202
Total noninterest expense	10,916,665	9,859,752
Income before income taxes	2,480,553	1,809,115
Federal income tax expense	717,645	523,299
Net income	\$ 1,762,908	\$ 1,285,816
Other comprehensive income (loss)		
Unrealized gains in securities available-for-sale	303,707	576,473
Reclassification adjustment for (gains) losses realized in net income	(94,590)	8,916
Tax effect	(71,100)	(199,032)
Total other comprehensive income (loss)	138,017	386,357
Total comprehensive income	\$ 1,900,925	\$ 1,672,173
Basic earnings per share	\$ 1.30	\$ 0.99
Diluted earnings per share	\$ 1.30	\$ 0.98

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	ESOP Debt Guarantee	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at December 31, 2013	1,213,155	\$ 23,377,184	\$ 1,411,000	\$ (679,216)	\$ (122,536)	\$ 23,986,432
4% stock dividend on April 7, 2014	48,337	952,722	(952,722)	—	—	—
Redemption of fractional shares	—	(3,729)	—	—	—	(3,729)
Stock options exercised	176	2,994	—	—	—	2,994
Guarantee of ESOP debt	—	—	—	72,031	—	72,031
Net income	—	—	1,285,816	—	—	1,285,816
Change in unrealized holding gain (loss) on securities available-for-sale, net of \$199,032 income tax effect	—	—	—	—	386,357	386,357
Balance at December 31, 2014	1,261,668	24,329,171	1,744,094	(607,185)	263,821	25,729,901
4% stock dividend on April 6, 2015	50,266	1,002,806	(1,002,806)	—	—	—
Redemption of fractional shares	—	(4,004)	—	—	—	(4,004)
Stock options exercised	24,745	304,972	—	—	—	304,972
Guarantee of ESOP debt	—	—	—	110,613	—	110,613
Net income	—	—	1,762,908	—	—	1,762,908
Change in unrealized holding gain (loss) on securities available-for-sale, net of \$71,100 income tax effect	—	—	—	—	138,017	138,017
Balance at December 31, 2015	<u>1,336,679</u>	<u>\$ 25,632,945</u>	<u>\$ 2,504,196</u>	<u>\$ (496,572)</u>	<u>\$ 401,838</u>	<u>\$ 28,042,407</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 1,762,908	\$ 1,285,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	724,007	703,839
Net amortization of premiums and discounts on securities available-for-sale	672,947	514,364
Changes in loans held for sale	(185,800)	(345,000)
Gain on disposal of premises and equipment	(3,925)	–
Gain on sale of other real estate held-for-sale	–	(34,081)
Loss on impairment of other real estate held-for-sale	30,241	21,420
Realized (gain) loss on securities available-for-sale, net	(94,590)	8,916
Provision (benefit) for deferred income taxes	(123,729)	(88,327)
Increase in cash surrender value of bank owned life insurance	(169,895)	(169,855)
Change in assets and liabilities:		
Accrued interest receivable and other assets	(610,631)	(393,341)
Accrued interest payable and other liabilities	(138,717)	142,193
Net cash provided by operating activities	1,862,816	1,645,944
Cash flows from investing activities		
Net change in interest-bearing deposits	28,544,000	25,238,119
Securities available-for-sale:		
Purchases	(3,366,165)	(37,290,611)
Proceeds from sales	17,256,231	3,155,054
Proceeds from maturities, calls or principal reductions	6,619,471	14,103,112
Proceeds from redemption of FHLB stock	503,300	42,100
Net (increase) decrease in loans receivable	(57,841,837)	(20,523,676)
Purchase of life insurance policies	(4,500,000)	–
Purchases of premises and equipment	(6,069,819)	(230,479)
Proceeds from sale of equipment	3,925	–
Proceeds from sale of other real estate held-for-sale	–	175,380
Net cash used by investing activities	(18,850,894)	(15,331,001)
Cash flows from financing activities		
Net increase in deposits	11,115,049	21,099,811
Proceeds from stock options exercised	304,972	2,944
Fractional shares paid in cash	(4,004)	(3,729)
Net cash provided by financing activities	11,416,017	21,099,076
Net change in cash and cash equivalents	(5,572,061)	7,414,019
Cash and cash equivalents at beginning of year	31,805,931	24,391,912
Cash and cash equivalents at end of year	\$ 26,233,870	\$ 31,805,931
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	\$ 350,719	\$ 443,149
Income taxes	\$ 894,316	\$ 606,453

WHEATLAND BANK LOCATIONS

**COMMUNITY
FINANCIAL GROUP,
INC.**

**& WHEATLAND BANK
ADMINISTRATIVE
HEADQUARTERS**

222 N Wall St, Ste 308
Spokane, WA 99201
(509) 242-5626
(888) 896-2577

SPOKANE DOWNTOWN

222 N Wall St, Ste 100
Spokane, WA 99201
(509) 458-2265

SPOKANE NORTHSIDE

10801 N Newport Highway
Spokane, WA 99218
(509) 232-4325

SPOKANE VALLEY

14732 E Indiana Ave
Spokane Valley, WA 99216
(509) 232-5705

DAVENPORT

600 Morgan St
Davenport, WA 99122
(509) 725-0211

WILBUR

8 SE Main St
Wilbur, WA 99185
(509) 647-5518

ODESSA

22 E 1st Ave
Odessa, WA 99159
(509) 982-2641



RITZVILLE

101 E 1st Ave
Ritzville, WA 99169
(509) 659-0330

QUINCY

1015 Central Ave S
Quincy, WA 98848
(509) 787-9808

MOSES LAKE

1442 S Pioneer Way
Moses Lake, WA 98837
(509) 764-4602

WENATCHEE

1115 N Miller St
Wenatchee, WA 98801
(509) 663-5100

YAKIMA

201 E Yakima Ave, Ste 100
Yakima, WA 98901
(509) 452-7728

ELLENSBURG

205 S Main St, Ste 1
Ellensburg, WA 98926
(509) 933-3200

CHELAN

134 E Woodin Ave
Chelan, WA 98816
(509) 682-1400

PASCO

9715 Sandifur Parkway
Pasco, WA 99301
(509) 545-5626



