2017 Annual Report

15TH ANNIVERSARY EDITION

Community FIRST Financial Corporation

"There's More Where This Came From!"

TABLE OF CONTENTS

CommunityFIRST Financial Corporation

January 1, 2017 - December 31, 2017

2002 | 2003 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010

- **Mortgage Company** opened
- Year 1: **Bank is officially chartered** as 1st new bank in Howard County in over 55 years
- Year 3: Reached **$100 million** in assets
- Year 4: **Dixon Road** Branch Opens
- Year 5: Reached **$150 million** in assets and added the **Investment Department**
- Year 6: **Hoffer Street** Branch Opens
- Year 7: Reached **$200 million** in assets and added the **Generations Journey Club**

MISSION STATEMENT

"To have the people of our community at the core of our business every day. With all local management, we understand the needs of Indiana which will empower us to be a local bank in every sense. We will develop and maintain knowledgeable personnel dedicated to offering high-quality services and products that are delivered with a personal touch. Efficiencies will be developed to simplify banking and offer competitive rates. Through these objectives, we will become the premier local financial institution thus maximizing the value of Community First Bank of Indiana to our Shareholders."

BEST PLACES TO WORK IN INDIANA 2017

VOTED KOKOMO'S BEST BANK
CUSTOMER CHOICE

2013 — Year 11 — 2014 — Year 12 — 2015 — Year 13 — 2016 — Year 14 — 2017 — Year 15 — 2018 — The Future....

Year 11
Celebrated **10 years**
Received **Community Pride** Award
Purchased **Downtown Branch & Renovation**

Year 12
Received **Small Business Lender of the Year** Award

Year 13
Loan Production Office is opened in Hamilton County
Received **Best Places to Work** Award

Year 14
Launched new **Mobile Banking App**

Year 15
Loan Production Office is transitioned into full service branch

The Future....
Plans are put into place for **expansion in Hamilton County**

"To have the people of our community at the core of our business every day..."

BOARD OF DIRECTORS

William H. Hingst .... *Chairman of the Board*

William E. Bersbach	Rex A. Gingerich	Ronald J. Metz
Robert D. Blume	J. Michael Harshman, M.D.	Dr. F. Wesley Peik
August Cijan	Mark A. McCann	C. Michael Stegall
R. Cartwright Ellis	David A. McFatridge	Curtis C. Welke

BANK OFFICERS

Robb Blume .... *President & CEO*
Bob Hickman .... *Executive Vice President, Chief Credit Officer*
Michael K. Grant .... *Senior Vice President, Director of Mortgage Lending*
Barb Alexander .... *Vice President, Retail Compliance & Operations Manager*
Casey Arnold .... *Vice President, Commercial Lending Hamilton County*
Tracy Brown .... *Vice President, Downtown Branch Manager*
Anita Eckstein .... *Vice President, Mortgage Operations*
Greg Goff .... *Vice President, Commercial Lending*
Monica Gremelspacher .... *Vice President, Interim-Chief Financial Officer*
Steve Hickey .... *Vice President, Credit Manager*
Vance Hodges .... *Vice President, Credit Analysis*
Kim LaFollette .... *Vice President, Director of Retail Banking & Marketing*
Lori McKean .... *Vice President, Hoffer Street Branch Manager*
Larry Rolland .... *Vice President, Investment Department Manager*
Steve Specht .... *Vice President, Collections Manager*
Julie Tracy .... *Vice President, Director of Information Technology*
Bea Wiles .... *Vice President, Chief Operating Officer*
Jeromie Wright .... *Vice President, Commercial Lending*
Carlonda Davis .... *Assistant Vice President, Human Resource Manager*
Bart Irwin .... *Assistant Vice President, Investment Advisor*
Angie Johnson .... *Assistant Vice President, Operations Manager*
Jonathan Malin .... *Assistant Vice President, Commercial Lending*
Karen Munsey .... *Assistant Vice President, Investment Advisor*
Calee Ozminkowski .... *Assistant Vice President, Dixon Road Branch Manager*
Tammy Burton .... *Retail Banking Officer, Dixon*
Katelyn Crumley .... *Retail Banking Officer, Hoffer*
Stacy Russell .... *Retail Banking Officer, Downtown*
Kim Sanders .... *Retail Banking Officer, Pebble Village*
Sally Duke .... *Bank Travel Officer*
Tammy Pekarske .... *Credit Officer, Commercial Lending*
Janelle Campbell .... *Mortgage Loan Officer*

PRESIDENT'S MESSAGE

"By continuing to invest in our people, communities and systems, we plan to make sure that - THERE'S MORE WHERE THIS CAME FROM!"

- Robb Blume, CEO & President

As Community First Bank of Indiana, Your Bank, prepares to celebrate its 15th anniversary, it is satisfying to look back at our accomplishments. In total, we have grown the bank from zero to over $260 million in assets and over $200 million in loans. Deposits topped $230 million in 2017 and our Book Value Per Share was $20.47 at the end of the year, over double the initial offering price. And our CFB family has grown: full-time equivalent employees have increased from 16 in 2003 to 55 at the end of 2017. These are long-term achievements that we are all proud of.

On a more immediate basis, 2017 saw the bank grow loans over $21 million, deposits by 22.7% and total assets by over $42 million. Earnings were a respectable $1.64 per share, despite one-time charges totaling over $750,000 (see CFO report for clarification of impact of tax reform). Despite those one-time charges and investing to support future growth, our earnings were well above the midpoint of our peers. All of this was accomplished while continuing to improve the already strong quality of our loan portfolios.

While our numbers remain strong, the biggest story of 2017 was our preparation for future growth. In addition to converting our Noblesville loan production office to a full-service branch, we were also able to secure three parcels of ground to facilitate expansion in Hamilton County. We expect to break ground on our first Westfield office in the second quarter of 2018. An additional Westfield office and replacement for our leased Noblesville office will follow shortly, thereafter. Our Hoffer Street office was expanded to accommodate our growing mortgage lending department and should now accommodate anticipated growth from both our Howard and Hamilton locations. We also made significant investments in automating all our lending areas: commercial, consumer and mortgage lending. This will allow us to more efficiently grow each of these loan portfolios.

Finally, we continue to invest in the biggest key to our success – our people. We have restructured our accounting, operations and human resources departments to accommodate the tremendous growth that we are projecting. To ensure we attract and retain the highest quality people, we have continued to provide development, educational and advancement opportunities to our people, In 2017, CFB was once again voted "Best Bank in Kokomo" and one of the "100 Best Places To Work In Indiana." Your Bank continues to support its communities through volunteerism and financial support to worthwhile causes. A great deal of our success is attributable to the support we have received from the communities we do business in and we plan to continue that tradition.

In short, by continuing to invest in our people, communities and systems, we plan to make sure that – THERE'S MORE WHERE THIS CAME FROM!

As we have said many times before, thank you to all of our employees, shareholders, communities and board members for your continued support. We look forward to serving you for many years to come.

Robb Blume
CEO & President

CHIEF CREDIT OFFICER'S MESSAGE

> "A funny thing happens when your organization focuses on helping their customers and the community around them; it grows and thrives."
>
> *- Bob Hickman, Chief Credit Officer*

Fifteen years. It seems like it all passes in the blink of an eye. For those of us fortunate enough to be chosen by Mike Stegall to be part of this adventure from the beginning, it has been a wonderful and fulfilling experience. We have been able help build and grow something important, something that makes a difference in the lives of the people around us. A community bank.

A true community bank is more than just a place to deposit your paycheck. It is a vibrant part of the local landscape. Community banks provide investment and leadership, helping to make dreams come true for individuals as well as the business community. In the good times, a community bank helps create jobs. In bad times, a community bank helps save jobs. At all times, a community bank is there to support our friends and neighbors as they strive to make the world around them a better place to live.

A community bank is not just a business venture. A community bank is a collection of people who share a common vision, working towards common goals. Community First Bank has always been blessed with wonderful people who have contributed to making this dream a reality.

The people that make up this organization devote countless hours toward making central Indiana a better place to live. They volunteer their time, they give of themselves and their resources, because they understand that there are things that they can do to impact the lives of their neighbors that are far more meaningful than making a loan or opening up a CD.

A funny thing happens when your organization focuses on helping their customers and the community around them; it grows and thrives. The assets of your bank grew by 19.4% in 2017, an impressive number even in the current economic climate. Most of this growth came in the loan portfolio, which experienced an increase of 12% over the previous year. What that says about your bank is that as we grow, as our customers continue to trust us with more and more of their hard earned money, we in turn are reinvesting that money back in the community. We are helping people to buy that first house, helping businesses to expand and hire more people. In other words, we are making a positive impact on the community around us.

Sometimes, as I drive through town with my wife Kathleen on the weekend, I find myself looking at the businesses that we pass by and thinking about how many of them are customers of your bank. I think about the people behind these businesses, many of whom are also shareholders of the bank. I think about how they have built their businesses, and the role that we have been able to play as investors and advisors. I wonder how things might have been different without a strong community bank to stand behind them, in good times and in bad. It makes me feel good to know that what we have all accomplished together over the last 15 years has made a positive impact on so many.

You will probably notice that I have used the word "community" a lot in the previous paragraphs, and that was by design. Rarely has an organization chosen a name that so aptly describes their mission and what they are all about. Today, as it was fifteen years ago, the focus of your bank remains "Community First".

Bob Hickman
Chief Credit Officer

CHIEF FINANCIAL OFFICER'S MESSAGE

> "We as a bank are putting into motion plans to grow."
>
> *- Monica Gremelspacher, Interim CFO*

When I think back on 2017, I see it as a year of change. We as a bank are putting into motion plans to grow. The growth will bring change that will be positive for our bank, provide new opportunities for our employees, and increase the prospect of returns for our shareholders. The process of growth can sometimes be challenging, but we as a company are preparing to meet those challenges head on. The Accounting and Operations functions, once one department have been divided into two groups. The accounting group will continue to focus on high quality reporting to shareholders, management, and regulatory agencies. The new Operations Group will be customer focused. The staff will handle accounts and operate a call center to provide a consistent voice regardless of what branch the customer usually visits.

Net Income and Return on Assets versus Peer Group

In 2017, the Bank had a Net Income of $2.1 Million. Even with that level of performance, net income fell for the first time since 2012. While at first, this seems like a disappointment, some perspective is necessary. At the end of the year, the President of the United States signed a tax reform bill reducing the corporate income tax rate from 35% to 21%. While it is true that a reduction in taxes is great for our Bank in 2018 and beyond, there were some negative consequences in 2017. Corporations have assets on the books called deferred tax assets that recognize timing differences between when expenses are recognized and when taxes are paid on certain items. This is necessary as our financial statements are based on the accrual method and taxes are paid on a cash basis. These deferred tax assets were put on our books assuming a future tax rate of 35%, and with the decrease in the tax rate by 14%, the assets had to be revalued to reflect the new lower tax rate. This resulted in a decrease in our net income of $506,000. Without this one-time expense, 2017 would have seen a slight increase in net income over 2016. Net Income per share for the year was $1.64 for 2017, down from $2.03 in 2016; however, it would have been even with prior year performance at $2.03 per share without the tax changes. From a forward-looking perspective, 2018 will see significant decreases in tax expense which will result in more income for our shareholders.

Bank management uses several metrics to monitor our performance. One of the metrics we use is to compare our performance to other banks in our peer group, which are similar sized banks throughout the country. The graph comparing the bank's Return on Assets (ROA) vs. an average ROA of our peer group shows that for the first time since 2012, we are below peer average. This decrease in performance as compared to peer is in large part due to the tax issues described above. While it is true that all C Corporation banks would have deferred tax assets that they had to revalue in 2017, a comparison of effective tax rates as compared to our peer shows that ours is among the highest.

Looking at 17 C Corporation banks in our peer group, only 1 had a higher effective tax rate. This means that other banks of similar size do not have as substantial of a timing difference in their taxes and did not need to devalue as substantial of an asset. Our ROA for 2017 ended at .86% as compared to the average ROA of our peers of .87%. Additionally, it should be noted that the overall average is skewed by a few outliers. In a comparison of the full peer group of 47 banks, even though our ROA was below the average, our overall ranking in the category was 14th.

Book Value Per Share

The return that we provide shareholders each year is a combination of dividends paid as well as the increase in the Book Value Per Share. Dividends paid in 2017 totaled $0.54 per share. This was an increase from $0.52 paid in 2016 and $0.50 paid in 2015. The other component of return to our shareholders is the increase in Book Value Per Share; as this measure increases, it should equate to an increase in the value if the stock price. At the end of 2017 the book value per share increased to $20.47, up from $19.39 at the end of 2016. The increase of $1.08 in value per share was a 5.6% increase. All told, 2017 was a positive year for total returns for our shareholders.

Net Interest Margin versus Peer Group

Net interest margin is a metric that calculates the difference between what a bank earns on loans and investments and what the bank pays in interest for deposits and the other sources of funding used. For a bank to have a strong profit in a given year, this is one of the most important components. It is the measure of the core of our business. The graph shows that the Bank's Net Interest Margin of 4.36%, while down slightly from last year at 4.61%, is still well above our Peers at 3.91%. Our strong Net Interest Margin in 2017 shows that the Bank is profitable at its core function, and outside of the non- recurring tax expense, our performance for the year was solid.

Overhead Efficiency Ratio

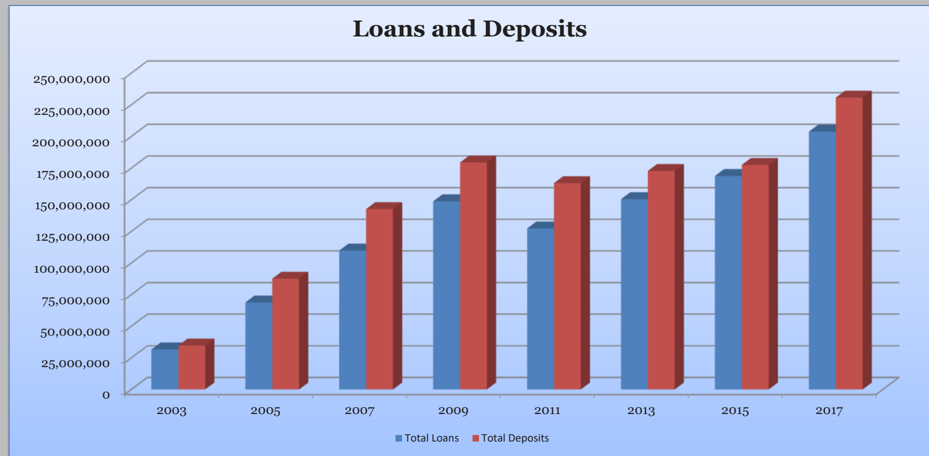
Overhead efficiency ratio is a measure of the overhead expenses that are necessary to generate the operating profits of the bank. A lower ratio indicates that a bank is more efficient and requires less overhead to make a profit. Looking at the graph, you will see that the bank's overhead efficiency ratio of 65.59% was significantly better than the peer ratio of 71.04%. While the ratio is higher than our 2016 ratio of 60.62%, we have since our inception in 2003 operated with less expense than our peers.

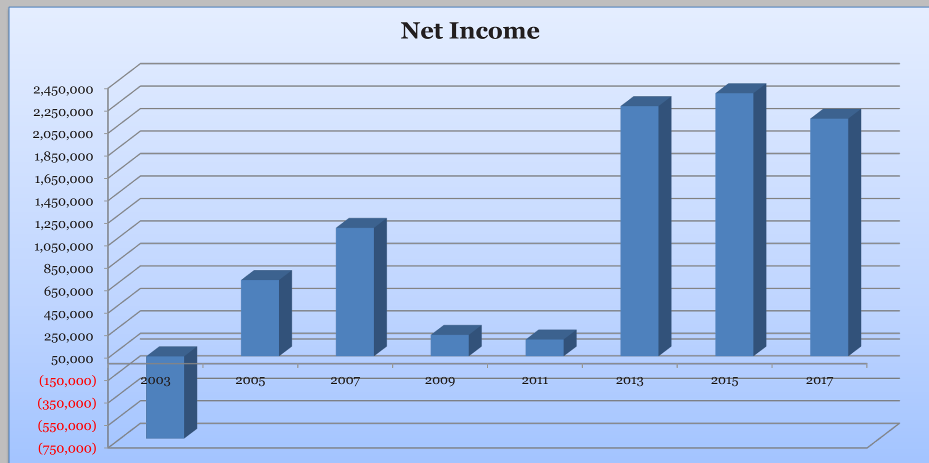
Overall, Community First Bank had a solid year. The bank produced positive returns for our shareholders, and we are preparing to grow so that we can continue to provide a solid return on the investment of our shareholders. We are thankful for the opportunity to serve our shareholders and to be an integral part of the communities we call home.

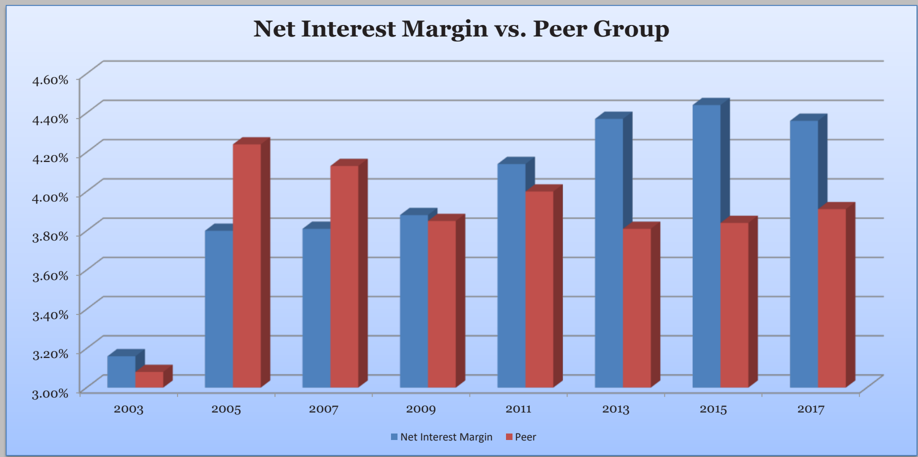
Monica Gremelspacher

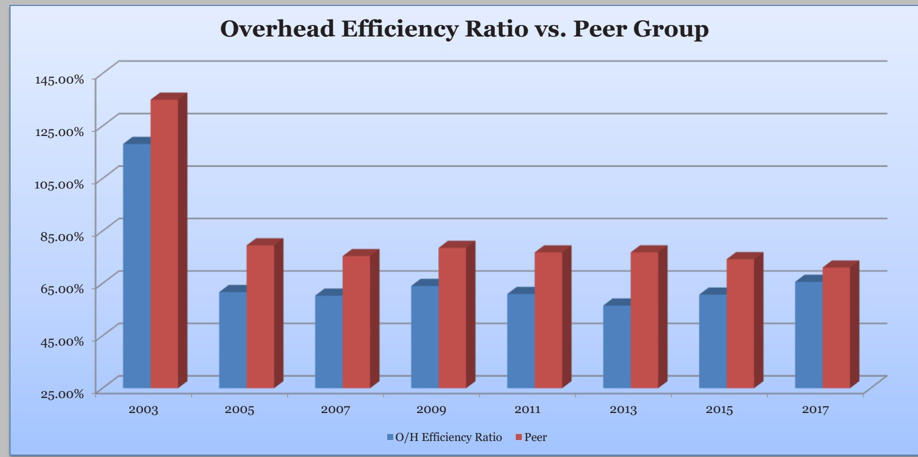
Monica Gremelspacher
Interim Chief Financial Officer

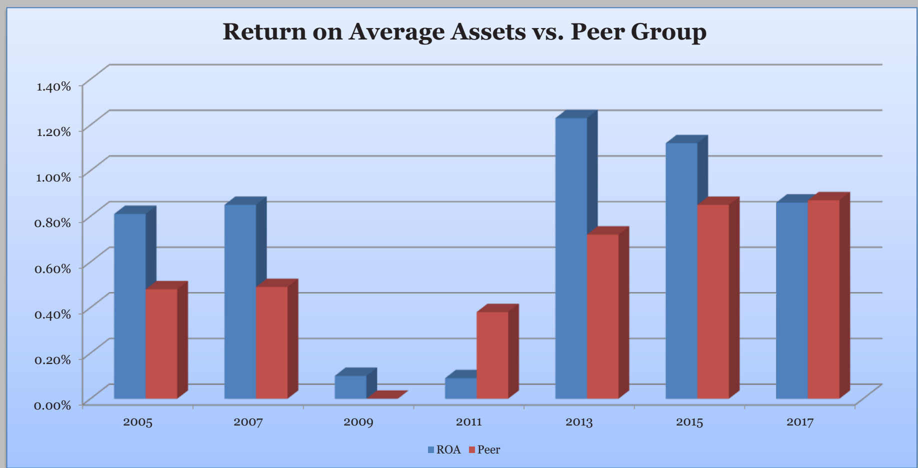
FINANCIAL GRAPHS

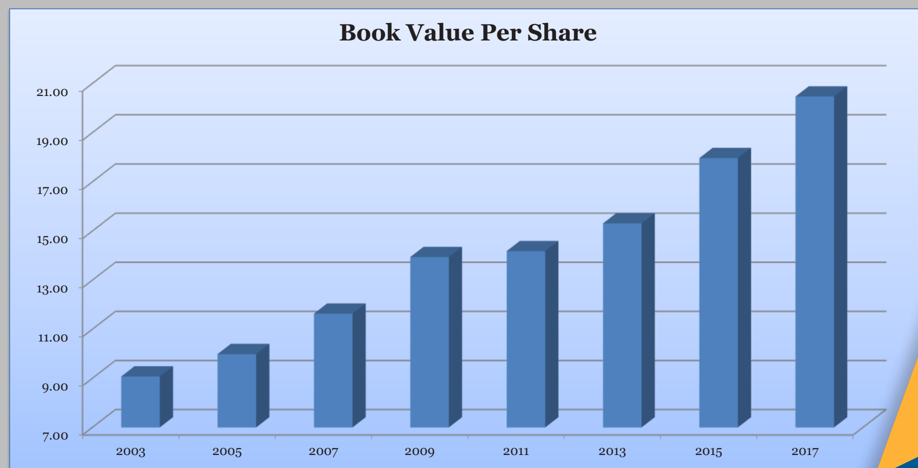





Net Interest Margin vs. Peer Group
4.60%
4.40%
4.20%
4.00%
3.80%
3.60%
3.40%
3.20%
3.00%
2003
2005
2007
2009
2011
2013
2015
2017
Net Interest Margin
Peer


Overhead Efficiency Ratio vs. Peer Group
145.00%
125.00%
105.00%
85.00%
65.00%
45.00%
25.00%
2003
2005
2007
2009
2011
2013
2015
2017
O/H Efficiency Ratio
Peer


Return on Average Assets vs. Peer Group
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
2005
2007
2009
2011
2013
2015
2017
ROA
Peer


Book Value Per Share
21.00
19.00
17.00
15.00
13.00
11.00
9.00
7.00
2003
2005
2007
2009
2011
2013
2015
2017

FINANCIAL HIGHLIGHTS

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
Assets		
Cash and due from banks	$ 5,194,315	$ 4,682,758
Interest Bearing Checking Accounts	29,204,946	16,184,549
Federal funds sold	60,001	120,001
Cash and cash equivalents	34,459,262	20,987,308
Available-for-sale securities	10,522,587	6,789,200
Loans held for sale	1,249,793	882,383
Loans, net of allowance for loan losses of $4,263,696 and $4,635,637	198,257,798	177,053,583
Premises and fixed assets	5,006,836	3,581,027
Other Real Estate Owned	790,062	-
Federal Home Loan Bank stock	225,600	225,600
Interest receivable and other assets	9,602,985	8,365,872
Total assets	$ 260,114,923	$ 217,884,973
Liabilities		
Deposits:		
Demand	$ 44,053,881	$ 36,671,174
Savings, NOW and money market	130,434,890	95,148,966
Time	56,112,145	57,328,897
Total deposits	230,600,916	189,149,037
Other borrowings	815,000	1,313,000
Interest payable and other liabilities	2,333,897	2,442,829
Total liabilities	233,749,813	192,904,866
Stockholders' Equity		
Common stock, $1 par value; authorized 10,000,000 shares; 1,288,102 shares issued and outstanding	1,288,102	1,288,102
Additional paid-in capital	11,686,334	11,686,334
Accumulated earnings	13,439,528	12,021,364
Accumulated other comprehensive income/loss	(48,854)	(15,693)
Total stockholders' equity	26,365,110	24,980,107
Total liabilities and stockholders' equity	$ 260,114,923	$ 217,884,973
Book Value Per Share	$ 20.47	$ 19.39

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2017 & 2016

	2017	2016
Interest Income		
Loans	$ 10,251,230	$ 9,437,958
Securities	380,779	209,271
Federal funds sold	16,065	13,228
Total interest income	10,648,074	9,660,457
Interest Expense		
Deposits	674,354	504,808
Other borrowings	5,552	354
Total interest expense	679,906	505,162
Net Interest Income	9,968,168	9,155,295
Provision for Loan Losses	25,000	300,000
Net Interest Income After Provision for Loan Losses	9,943,168	8,855,295
Noninterest Income		
Service charges on deposit accounts	303,138	299,794
Fees on loans sold	600,968	849,306
Net realized losses on sales of available-for-sale securities	-	-
Other	1,212,705	1,091,429
Total noninterest income	2,116,811	2,240,529
Noninterest Expense		
Salaries and employee benefits	5,121,862	4,386,357
Net occupancy expense	304,629	301,597
Equipment expense	248,639	221,011
Data processing fees	829,238	736,142
Professional fees	303,439	241,180
Advertising expense	145,800	132,976
Printing and office supplies	58,208	67,127
Other	916,450	827,193
Total noninterest expense	7,928,265	6,913,583
Net Income (Loss) Before Taxes	$ 4,131,714	$ 4,182,241
Income Taxes	2,017,975	1,566,982
Net Income	$ 2,113,739	$ 2,615,259
Net Income Per Share	$ 1.64	$ 2.03

MORTGAGE MESSAGE

2017 will be remembered as a year of adapting to 'change'! From our new President of the United States, to the incredible success of the stock market, to the new federal tax code, to continually learning and adapting to our ever-changing regulations in the banking industry, this has indeed been a year of change.

During the past year, we implemented a change from Calyx to MortgageBot, a new mortgage operating system which will allow us to compete in the on-line mortgage application arena and assist us in reducing duplicate post-closing documentation and allow us to utilize electronic signatures, with the intent of saving money and time.

In addition, we have implemented a change to our consumer operating system from ARTA to Laser Pro, with the same goals of reducing duplicate post-closing paperwork along with introducing the electronic signature option.

The final software and systematic changes were caused by more regulations and felt by the processing and underwriting staff. Between mandated changes that require us to use the UCDP appraisal scoring model, and new federal HMDA requirements, needless to say, both require much more time than in previous years.

Lastly, in September, we opened our new 2,400 square foot addition to the rear of the Hoffer street location to house our mortgage processing and underwriting staff, as well as our new conference/training center. If you get the chance, please drop by for a tour. The work associates are very proud of their new environment, as we allowed them to decorate and stage to their taste!

While these 'changes' will be beneficial in the future; the time commitment, cost involved and adaptation to change were a bit of a disruption to our main focus-Mortgage production!

We had a very good year in profit per mortgage loan, while total mortgage production was down a small percentage over the prior year, mainly due to a much smaller pool of refinance opportunities.

Hamilton County has continued to grow in their mortgage production and we are looking forward to what the future brings for all of 'your bank'!

Michael K. Grant
Director of Mortgage Lending

INVESTMENT BANKING MESSAGE

It has been nearly eleven years ago since the Investment Department began. During that time, we have been successful in expanding our customer base while focusing on providing excellent service to both new and existing clients. All of us strive to understand both the financial and personal goals and objectives of our clients so we can provide the best advice possible. We offer a full-range of investment products including fee-based accounts, mutual funds, ETFs, real estate trusts, annuities, and individual stocks and bonds. We also assist our clients in identifying needs in the life insurance, long term care, and disability areas. Our department manages over twenty small business retirement plans including 401Ks, Simple IRAs, and SEPs.

2017 was a year of change for Community First Investments with an increased focus on fee-based business versus commission-based business. This was at least partially due to the expected implementation of a Department of Labor rule that would have required advisors to take on more of a fiduciary role.

While focusing on the fee-based model results in higher on-going revenue to the bank, it also results in less commission income in the short run. Although total net revenue to the bank declined from $378,730 in 2016 to $372,988 in 2017, fee-based revenue grew by 63%. This will continue to be the focus of our department and will ultimately make it easier to achieve goals in the future.

We also understand that we are a vital part of the bank and encourage clients to use Community First Bank for their banking needs. We focus on providing referrals to the bank and helping customers with products and services such as deposits, mortgages, home equity loans, etc. We welcome referrals from other areas of the bank and ensure we are providing the same service to that referral customer as they have been receiving from bank personnel.

Overall, 2017 was an excellent year for our department and we are looking forward to continue to add value to both the bank and our clients in 2018.

Larry Rolland
Investment Banking / Investment Department Manager

HAMILTON COUNTY MESSAGE

"Our goals are very high as we commit to being THE BANK for Hamilton County."

- Casey Arnold, Vice President of Commercial Lending

It is well-known that the visible portion of an iceberg sticking out of the ocean is merely a fraction of the true size. It is said that 90% of an iceberg is under water, and therefore not visible. The floating ice mountain looks like a small mound above the surface. The 15 years since CFB has been serving its clients and communities represents the portion of the iceberg above the water's surface. Not to minimize the impact of what we've done so far, but the BEST is yet to come! There's a mountain under the water that represents where we are going and what lies ahead for CFB. It is always a joy to look back and see how far we've come, the clients we've served, the projects we've financed, the relationships we've built. Those are all so rewarding to look back on and smile at how we've arrived here today. The same could be said of looking back on 2017. Yes, there have been many challenges that have come our way, and if one thing was learned, not everything goes exactly as planned, especially when it comes to growth of an organization. However, overwhelmingly so, looking back at 2017 has brought an immense sense of pride and accomplishment.

In Hamilton County, we grew our commercial loan portfolio to over $40 million in outstandings. We also made tremendous progress in our mortgage department (collecting in excess of $100,000 in mortgage fees on loans sold), as well as establishing relationships with clients that will be (and have been) excellent referral sources for years to come. We've continued to integrate our people into the culture of CFB, and remain committed to be "one bank" with a culture that is the same regardless of how much we grow. Looking back over 2017, we continued to establish ourselves as a true, locally-owned bank that is committed to serving our communities.

Looking ahead, there are SO many reasons to be excited as we expand our Hamilton County presence. There will be several challenges in the next year, the biggest being that we will be hiring approximately 15-20 people in the next year or two. The challenge is finding the right people that fit our culture, and are committed to doing things the "right way" and working together as a team. As Henry Ford said, "If everyone is moving forward TOGETHER, then success takes care of itself." Hamilton County has SO much potential, and will continue to add value for our Shareholders, Board Members, and employees. Our goals are very high as we commit to being THE BANK for Hamilton County; however, with the rock-solid past 15 years to stand on, the right people, and servant's heart, we have absolutely no doubt we will be successful. 2018 will be "the year of the deposits" as we catch up to our loan growth on the deposit side of the balance sheet. The Hamilton County Team is committed to representing and serving our community in a way that the Kokomo Team has over the past 15 years.

The tip of the iceberg that represents the last 15 years, is a big, beautiful piece of ice. However, the portion underwater is even more massive, and will glisten as it arrives above water in the years to come! 2017 was a GREAT year; however, "there's more where that came from!"

Casey Arnold
Vice President of Commercial Lending

COMMUNITY INVOLVEMENT

"There's More Where

This Came From!"

2003 - 2017

MAIN BRANCH

201 W. Sycamore St.
Kokomo, IN 46901

(765) 236-0600

DIXON ROAD BRANCH

2101 S. Dixon Rd.
Kokomo, IN 46902

(765) 456-4287

HOFFER STREET BRANCH

1308 E. Hoffer St.
Kokomo, IN 46902

(765) 456-4368

PEBBLE VILLAGE BRANCH

5570 Pebble Village Lane
Suite 400
Noblesville, IN 46062

(317) 399-7500

15TH ANNIVERSARY

Community FIRST Financial Corporation

"There's More Where This Came From!"

www.cfbindiana.com