Community FIRST Financial Corporation

Sweet 16

2018 ANNUAL REPORT

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January 1, 2018 - December 31, 2018

AWARDS

BOARD OF DIRECTORS

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

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

BANK OFFICERS

Management Team

Robb Blume .... President & CEO
Bob Hickman .... Executive Vice President, Chief Credit Officer
Michael K. Grant .... Senior Vice President, Director of Mortgage Lending
Bill Buchanan .... Senior Vice President, Chief Financial Officer
Barb Alexander .... Vice President, Retail Compliance & Operations Manager
Casey Arnold .... Vice President, Commercial Lending Hamilton County
Carlonda Davis .... Assistant Vice President, Human Resource Manager
Monica Gremelspacher .... Vice President, Controller
Steve Hickey .... Vice President, Credit Manager
Kim LaFollette .... Vice President, Director of Retail Banking & Marketing
Adrienne Riddle .... Vice President, Treasury Management Officer
Larry Rolland .... Vice President, Investment Department Manager
Julie Tracy .... Vice President, Director of Information Technology
Bea Wiles .... Vice President, Chief Operating Officer

Bank Officers

Joshua Baker .... Vice President, Commercial Lending
Rafael Bolivar .... Vice President, Commercial Lending
Tracy Brown .... Vice President, Downtown Branch Manager
Anita Eckstein .... Vice President, Mortgage Operations
Gavin Fisher .... Vice President, Business Development Officer
Greg Goff .... Vice President, Commercial Lending
Greg Gordon .... Vice President, Commercial Lending
Vance Hodges .... Vice President, Credit Analysis
Todd Lowe .... Vice President, Mortgage Loan Underwriter
Lori McKean .... Vice President, Hoffer Street Branch Manager
Steve Specht .... Vice President, Collections Manager
Amanda Hedrick .... Assistant Vice President, Compliance Officer
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
Peter Needler .... Assistant Vice President, Commercial Lending
Calee Ozminkowski .... Assistant Vice President, Dixon Road Branch Manager
Bonnie Riley .... Assistant Vice President, Oak Ridge Branch Manager
Tammy Burton .... Retail Banking Officer, Dixon
Janelle Campbell .... Mortgage Loan Officer
Katelyn Crumley .... Retail Banking Officer, Hoffer
Sally Duke .... Bank Travel Officer
Josh Faudree .... Retail Banking Officer, Noblesville Branch Manager
Tammy Pekarske .... Credit Officer, Commercial Lending
Stacy Russell .... Retail Banking Officer, Downtown

PRESIDENT'S MESSAGE

> If we don't change, we don't grow. If we don't grow, we aren't really living.

Gail Sheehy

> Strength and growth come only through continuous effort and struggle.

Napoleon Hill

> Stop being afraid of what could go wrong, and start being excited about what could go right.

Tony Robbins

Dear Shareholders, Customers, Employees and Community Partners,

As 2018 fades into the distance, all involved with Community First Bank of Indiana can look back on the year with pride in what was accomplished. Since our inception in 2003, change, growth and improvement have been consistent themes and 2018 was certainly no exception. It is those elements that are key to generating the performance and shareholder value that will allow us to continue as an independent community bank.

From a financial standpoint, 2018 was a record setting year for your bank. Net income topped $3 million for the first time ever and assets totaled over $285 million at year end. Credit quality continued to improve, as has been the case over the last several years. Bill Buchanan, who joined the bank as CFO in 2018, will elaborate on our financial performance later in this report. Suffice it for me to say that, by nearly every financial measurement, we rank very well against our peers.

As we have continued to expand our asset base and loan portfolio, we have also added to our CFB team. 2018 was no different, as we continued to add talent to our already outstanding group. For the first time, we now have a Human Resources Manager, a Treasury Management Officer and an in-house Trainer. We have expanded our Call Center to expedite customer calls and to allow our in-branch personnel to concentrate on the customers in front of them. We continue to add to the number and quality of our credit and lending departments, insuring that the loan growth we incur will be profitable and safe for your bank. The directorship of your bank also grew in 2018. Monica Peck and Pete Smith, both Hamilton County residents, joined the CFB board of directors during the year. Monica and Pete bring a wealth of community and business knowledge and experience to the board. We welcome them and look forward to their contributions to our future growth. The 80+ employees and 15 directors who now make up our family are truly the heartbeat of the organization. We continue to develop our people to grow with the bank in order to provide the next generation of management and leadership.

A key to remaining competitive and efficient is intelligent use of appropriate technology. As the rate of technological change in financial services continues to accelerate, we are constantly weighing the cost of investing in new technologies against opportunities to gain efficiencies, improve the customer experience and reduce risk. In an effort to make sure that we are keeping up with relevant technological developments, we have transitioned our information technology efforts to become more proactive and strategic, with one result being that we are constantly evaluating existing and new products to insure that we are fully utilizing the tools that we have paid for and are offering products and services that are relevant in our markets.

2019 promises to be one of our most exciting years ever! As we prepare to open two new banking facilities and relocate a third, many of us feel as if we are reliving the formative years of the bank. We will be opening our Oak Ridge Road facility (Westfield) in April, followed by a mid-summer opening of a second Westfield location at 161st and Springmill Road. Finally, we plan to relocate our current Noblesville branch to a more visible location in Pebble Village, directly in front of our current offices. As part of our growth strategy, in late 2018, the bank performed a makeover of our deposit products and launched a new marketing initiative to attract core deposits. The first 3 months of the new program have been extremely encouraging, as the number of new accounts opened has more than tripled over the same period, prior year.

While our investments in technology, facilities and marketing are important, it is not the "shiny new things" that will make us successful. Our people continue to be our most important asset. It is our people who, on a daily basis, develop our customer relationships, support our communities and work together to make your investment a great one. Continuing to develop our culture and provide growth opportunities within our organization will remain critical to our success. We are happy to have been named to the Best Places to Work in Indiana list for the past four years, but will not rest on our laurels. We will continue to strive to provide a friendly and fulfilling workplace, allowing us to attract and retain the best bankers in Indiana. We strongly believe that the steps we take behind the scenes are reflected in our customer and investor experiences.

A number of new investors recently became shareholders, providing new capital to support anticipated growth. I would like to welcome those new shareholders to the CFB family and to thank all of our shareholders for the opportunity to continue serving our communities. Our directorship and staff believe that strong, independent community banks are a critical element to successful communities and we appreciate the opportunities afforded by your faith in us.

Robb Blume

CEO & President

> Growth is never by mere chance; it is the result of forces working together.

James Cash Penney

> Everyone wants to live on top of the mountain but all the happiness and growth occurs while you're climbing it.

Andy Rooney

> Change is inevitable. Growth is optional.

John Maxwell

> I learned to always take on things I'd never done before. Growth and comfort do not coexist.

Ginni Rometty

> The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.

William Arthur Ward

CHIEF CREDIT OFFICER'S MESSAGE

I am pleased to be able to report that 2018 was another very strong year for both the commercial loan area and the bank as a whole. Our profitability and loan quality metrics remain in the top quartile of our peers in the Great Lakes region as we continue to expand and grow our footprint in Central Indiana. Elsewhere in this report, you will see a lot of numbers and statistics that verify this success, so I won't spend a lot of time in this message quoting numbers. Instead, I would like to focus on credit culture, and the challenges of maintaining that culture in a bank like ours that is experiencing rapid growth.

Recently, someone posed the question as to our ability to continue to maintain our strong profit margins as we expand in the very competitive Hamilton County market. My first thought was that we had already proven our ability to do this, as the successful launch of our loan production office three years ago had resulted in over 20% of our current loan portfolio being comprised of credits from Hamilton County and the Indianapolis area. This growth had occurred without any erosion in either our quality metrics or profitability, so I felt like this question had already been asked and answered. But the more I thought about it, the more I realized that the real question was "Can we maintain our credit culture as we continue to grow?"

We talk a lot about the culture of our community bank, and how it allows us to fill a niche in a banking marketplace filled with mega-banks that have lost the personal touch. An important subset of bank culture is credit culture. To me, credit culture is a roadmap, it defines how we go about the job of lending money to the community. It is a set of values that guides our actions and decisions, and it is driven by the overall values of the bank.

It is easy to establish and maintain a common credit culture when you are small, but with growth comes challenges. When we started the bank in late 2002, there were three of us that were involved in the commercial lending process. Today, the number is 22. We have added some terrific people over the years, both in Howard and Hamilton counties, and as each person comes on board it is vital that they understand and embrace that culture, strengthening it as they assimilate and add their own unique talents and strengths.

We define the credit culture of Community First Bank by our core beliefs. The first of these is that the credit process is a collaborative effort where teamwork provides the best results. This would seem to be intuitive, but you would be amazed by how rare this truly is in most banks.

Many banks allow an environment of silos to occur, not only between departments but within them as well. It is surprisingly common in these banks to find that the loan department and the underwriting department (affectionally called "the loan prevention department" at these institutions) are actually working in opposition to each other. Community First will never operate like this. We want the lenders and credit analysts communicating and working together, because the goal is not to make every loan, nor is it to prevent loans, but rather to make as many good loans as possible while managing and minimizing risk.

Another core belief is that our lenders cannot simply be salespeople, they have to be much more than that. Again, it is surprising how many of our competitors, especially the big banks, do not follow this model. One of the key competitive advantages that allows Community First to thrive in a banking landscape littered with big bank competition is the expertise and experience of our lenders and their ability to act as a consultant to small businesses, guiding them towards a loan structure that will help the business succeed and create a profitable loan for the bank.

Another core belief is that all areas of the department have an equal role in our lending success. Some banks spend considerable resources on adding loan officers, but cut corners when it comes to establishing the appropriate support system of underwriting and administration. Many of these banks, especially the larger ones, may only have one or two support staff for every five lenders. At Community First, the ratio of lenders to credit and administration is one to one. We believe that for a community bank that has a balance sheet that is centered in loans, it is vital that credits are thoroughly underwritten and have the proper level of administrative support, and the best way to do this is to hire excellent people and maintain proper staffing levels.

By following our core beliefs, Community First Bank will be able to continue to prosper as we grow. As technology continues to advance and as we add new people with new ideas, it is important to our success that we embrace change and constantly look for ways to improve how we do things. Doing so in the context of maintaining our core values is a recipe for success for years to come.

Bob Hickman

Chief Credit Officer

CHIEF FINANCIAL OFFICER'S MESSAGE

The bank continued its winning ways in 2018 through the continued growth and strength of our loan portfolio; above average net interest margin and diligent expense management. The year also included large capital outlays as the construction of two of our three new branch banking facilities in Hamilton County began to take shape. There was also impressive balance sheet growth as our ending assets at December 31, 2018 were $285.5 million, over $26 million more than the previous year end. We remain excited about the future of the bank as we continue to grow and serve the banking needs of Howard County while at the same time expand our successful footprint in Hamilton County.

Net Income and Return on Assets versus Peer Group

The bank recorded net income of $3.2 million for the year ended December 31, 2018 compared to net income of $2.1 million for the same time period in 2017. The increase was principally brought about by growth in our net interest income along with the federal corporate income tax rate reduction from 35% to 21% that became effective January 1, 2018. These increases were partially offset by a year-over-year decrease in non-interest-income along with an increase in provision for loan loss expense. The year over year increase was also impacted by a one-time charge of $506 thousand in 2017 dealing with the write-down of deferred tax assets due to the 2017 Tax Act. Our 1.23% Return on Average Assets for the year ended December 31, 2018 compares favorably to the .91% average ROA recorded by our peer group that consists of two hundred nineteen (219) banks between $100 and $500 million in total assets located in Indiana, Michigan, Ohio and Kentucky.

Book Value per Share

Book value grows each year by the amount of net income earned minus the dividends that are paid to our shareholders. In 2018 our net income was $3.2 million and dividends paid amounted to $721.3 thousand, resulting in an ending book value of $22.38 per share, compared to an ending December 31, 2017 book value of $20.28 per share, resulting in a 10.4% increase year over year. Dividends per share in 2018 amounted to $0.55 per share compared to $0.53 per share in 2017, using the total shares outstanding at December 31, 2018 for each year's calculation. Note that there were 11,844 common shares issued during 2018 relating to the private placement common stock offering the bank initiated during the year.

Net Interest Margin versus Peer Group

Net interest margin is one of the primary drivers of the bank's earnings. It's calculated by taking the difference between the total interest income earned on the bank's interest-earning-assets, such as loans, investments, etc... minus the total interest expense paid for deposits, borrowings, etc... This result is then divided by the bank's average interest earning assets in order to arrive at the Net Interest Margin (NIM). For the year ended December 31, 2018, NIM was 4.29% compared to 4.30% for the same time period in 2017. This compares favorably to our Peer Group NIM of 3.79% for the year ended December 31, 2018. It is noteworthy to point out the NIM remained virtually unchanged despite the increase in the bank's total cost of funds, which went from 0.32% to 0.84% for the years ended December 31, 2017 and December 31, 2018, respectively. The increase in cost of funds was due primarily to a rising rate environment resulting from the Federal Open Market Committee increasing the overnight borrowing rate four times during the year, resulting in a cumulative increase in the overnight borrowing rate of 1.0%.

Overhead Efficiency Ratio

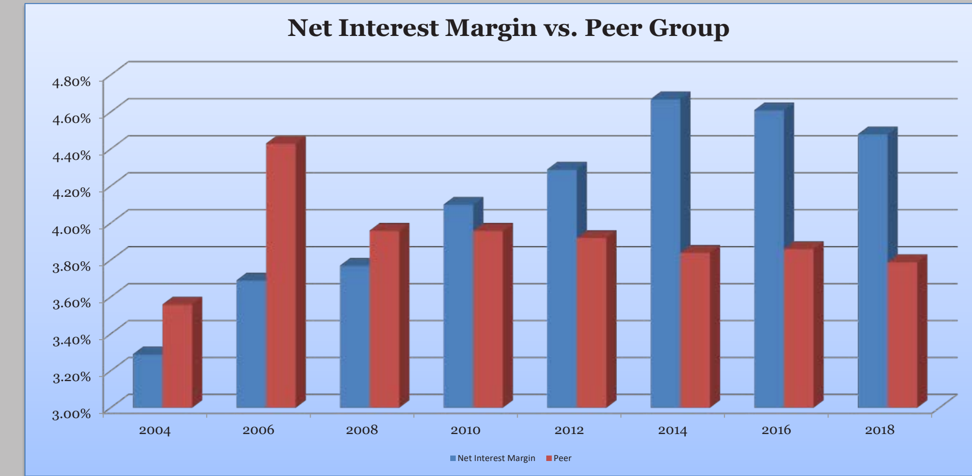
The Overhead Efficiency Ratio (OER) is another key measurement in evaluating a bank's profitability. It is calculated by dividing total non-interest expenses, such as salaries/benefits, data processing, occupancy, etc... by the sum of total net-interest-income (total interest income less total interest expense) plus total non-interest-income, such as loan fees, deposit fees, etc... In the banking industry it is commonly thought of, on a pre-tax basis, as the expression of how much the bank spends out of every dollar of income it produces. The OER for the year ended December 31, 2018 was 63.5% compared to 65.6% for the same time period in 2017. This ratio compares favorably to the 72.6% OER recorded by our Peer Group for the year ended December 31, 2018.

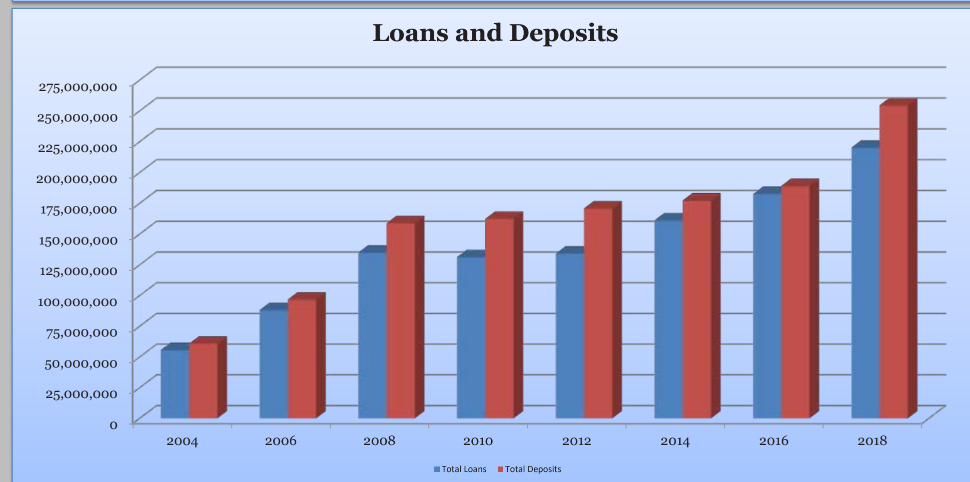
In summary, 2018 was another financially solid year for the bank with impressive asset growth and continued strong earnings and dividend payouts, that resulted in a year over year 10.4% increase in book value per share. Our bank is proud to produce such results while at the same time providing personalized, helpful and value-added services to the communities that we serve. We look forward to serving both our customers and shareholders as we continue to grow in the future!

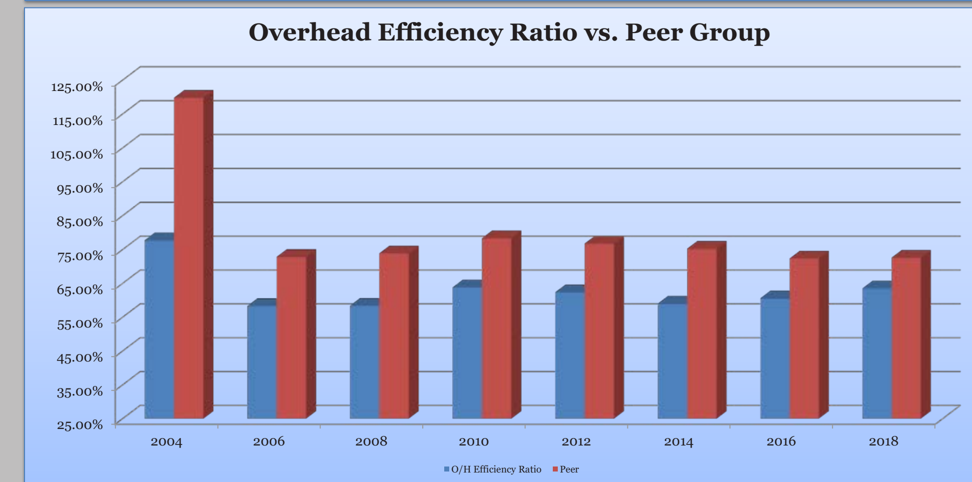
Bill Buchanan

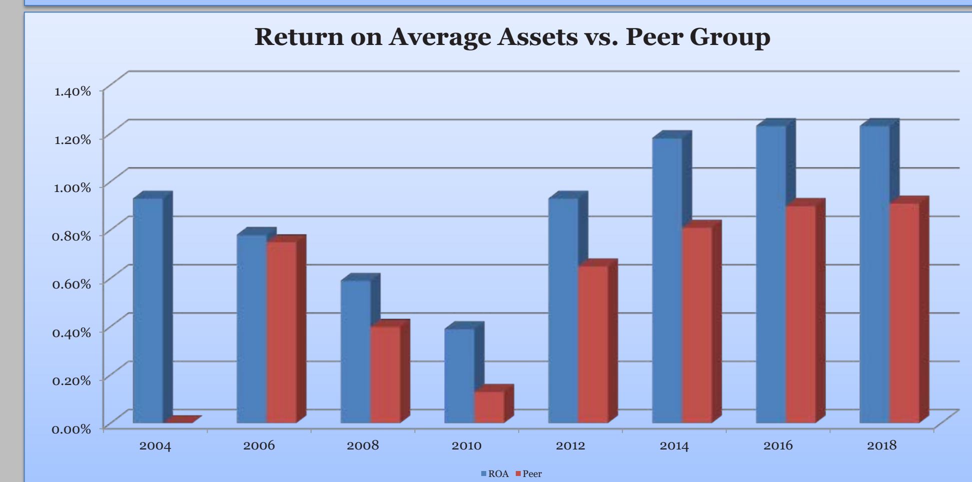
Senior Vice President & Chief Financial Officer

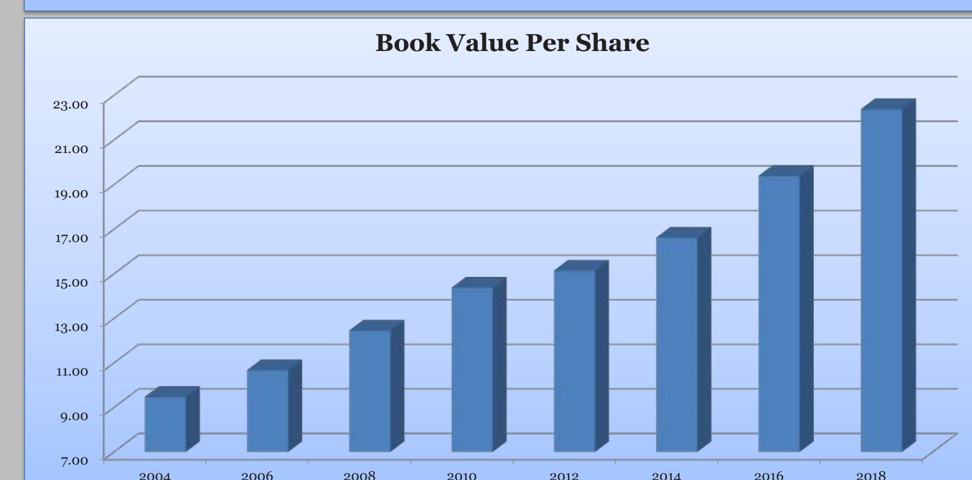
FINANCIAL GRAPHS











FINANCIAL HIGHLIGHTS

Balance Sheets - December 31, 2018 and 2017

	2018	2017
Assets		
Cash and due from banks	$ 6,945,107	$ 5,194,315
Interest Bearing Checking Accounts	37,066,866	29,204,946
Federal funds sold	110,001	60,001
Cash and cash equivalents	44,121,974	34,459,262
Available-for-sale securities	8,501,118	10,522,587
Loans held for sale	305,920	1,249,793
Loans, net of allowance for loan losses of $4,367,121 and $4,263,696	215,558,323	198,257,798
Premises and fixed assets	8,257,159	5,006,836
Other Real Estate Owned	444,000	790,062
Federal Home Loan Bank stock	242,000	225,600
Interest receivable and other assets	9,050,357	9,602,985
Total assets	$ 286,480,851	$ 260,114,923
Liabilities		
Deposits:		
Demand	$ 41,486,723	$ 44,053,881
Savings, NOW and money market	140,446,364	130,434,890
Time	72,658,350	56,112,145
Total deposits	254,591,437	230,600,916
Other borrowings	725,000	815,000
Interest payable and other liabilities	2,067,149	2,333,897
Total liabilities	257,383,586	233,749,813
Stockholders' Equity		
Common stock, $1 par value; authorized 10,000,000 shares; 1,299,986 and 1,288,102 shares issued and outstanding	1,299,986	1,288,102
Additional paid-in capital	11,959,666	11,686,334
Accumulated earnings	15,930,520	13,439,528
Accumulated other comprehensive income/loss	(92,907)	(48,854)
Total stockholders' equity	29,097,265	26,365,110
Total liabilities and stockholders' equity	$ 286,480,851	$ 260,114,923
Book Value Per Share (A)	$ 22.38	$ 20.28

(A) Total shares outstanding at 12/31/2018 were used to calcuate the Book Value per Share for both 2017 and 2018.

Statements of Income - Years Ended December 31, 2018 and 2017

	2018	2017
Interest Income		
Loans	$ 12,157,756	$ 10,251,230
Securities	601,756	380,779
Federal funds sold	32,121	16,065
Total interest income	12,791,633	10,648,074
Interest Expense		
Deposits	1,932,908	674,354
Other borrowings	11,882	5,552
Total interest expense	1,944,790	679,906
Net Interest Income	10,846,843	9,968,168
Provision for Loan Losses	350,000	25,000
Net Interest Income After Provision for Loan Losses	10,496,843	9,943,168
Noninterest Income		
Service charges on deposit accounts	307,968	303,138
Fees on loans sold	369,167	600,968
Net realized losses on sales of available-for-sale securities	-	-
Other	1,133,985	1,212,705
Total noninterest income	1,811,120	2,116,811
Noninterest Expense		
Salaries and employee benefits	4,945,506	5,121,862
Net occupancy expense	358,520	304,629
Equipment expense	369,043	248,639
Data processing fees	905,381	829,238
Professional fees	139,609	303,439
Advertising expense	193,919	145,800
Printing and office supplies	64,961	58,208
Other	1,063,840	916,450
Total noninterest expense	8,040,779	7,928,265
Net Income (Loss) Before Taxes	$ 4,267,184	$ 4,131,714
Income Taxes	1,072,332	2,017,975
Net Income	$ 3,194,852	$ 2,113,739
Net Income Per Share (B)	$ 2.46	$ 1.63

(B) Total shares outstanding at 12/31/2018 were used to calcuate the Net Income Per Share for both 2017 and 2018.

MORTGAGE MESSAGE

2018 was a challenging year in the mortgage industry. CFB enjoyed a good year financially, but the mortgage department experienced a sub-par financial performance, negatively impacted by rising interest rates, historically low housing inventory, and limited households that would benefit from a refinance.

That being said, we are optimistically looking forward to a productive 2019. We have added a new 30-year fixed rate portfolio mortgage that will allow for no PMI, and a special program available for specific professions that would allow for up to 99% financing. Both products are innovative and will allow us to better help members of our great Howard and Hamilton communities. Furthermore, the excitement surrounding the opening of our new branches in Hamilton County will certainly allow us to make an impact and close more mortgages in their robust housing market.

Michael K. Grant

Director of Mortgage Lending

INVESTMENT BANKING MESSAGE

Community First Investment Group had a successful year last year with gross revenue to the bank exceeding 2017 by $27,000. With income to the bank of close to $400,000, the increase was a 7.2% increase over the prior year. As our department continues to focus on fee-based revenue versus commission-based business, revenue from fee-based accounts was 25 percent over the prior year. This will continue to be an area of focus going forward.

At the end of the year, a decision was made to change broker-dealers from LaSalle to LPL Financial. While we appreciated the relationship we had with LaSalle during my twelve years with the bank, LPL provides advantages to both the investment department and clients regarding technology, assistance with marketing our department, succession planning, and other matters.

It has been nearly twelve years ago since the bank decided to begin offering investment products to bank customers. 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.

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, 2018 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

NEW BRANCH LOCATIONS COMING 2019

Oak Ridge Branch - Opening April 2019

707 East SR 32
Westfield, IN 46074

Junction Crossing Branch - Opening Summer 2019

381 South Junction Crossing
Westfield, IN 46074

Pebble Village Relocation - Opening Late 2019

COMMUNITY INVOLVEMENT

Community FIRST
Financial Corporation

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

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www.cfbindiana.com