

2019

ANNUAL REPORT

Community **FIRST**
Financial Corporation

Mark Jonela

Mortgage Customer

"We were referred to Community First by a close friend who knew I valued personal relationships with the people I do business with. The experience is caring and friendly. I like when I walk into a business and they know me by name and I am treated as a friend."

Board of Directors

BILL HINGST **Chairman of the Board**

BILL BERSBACH

ROBB BLUME

AUGUST CIJAN

CARTWRIGHT ELLIS

REX GINGERICH

DR. MICHAEL HARSHMAN

MARK MCCANN

DAVID MCFATRIDGE

RON METZ

MIKE STEGALL

CURTIS WELKE

PETE SMITH

MONICA PECK

Mid America Beverage

Liberty Financial Group

Community First Bank of Indiana

Retired, Haynes International

Crume/Ellis Auctioneers/Appraisers

McGonigal Cadillac Buick GMC

Kokomo Urology

McCann Legal

Jim Kitchell Agency

Bucheri McCarty & Metz

Retired, Community First Bank of Indiana

Welke Law Firm

Performance Services

Real Estate

Management Team

ROBB BLUME

BOB HICKMAN

BILL BUCHANAN

SCOTT HAMMERSLEY

KIM LAFOLLETTE

WENDELL PROPES

LONDIE DAVIS

LARRY ROLLAND

JULIE TRACY

BEA WILES

President & CEO

Chief Credit Officer, EVP

Chief Financial Officer, SVP

Commercial Loan Group Manager, SVP

Director of Retail Banking, SVP

Mortgage Department Manager, SVP

Human Resource Manager, VP

Head of Investments, VP

Director of IT, VP

Chief Operating Officer, VP



MEMBERS OF THE BOARD
Celebrating at Oak Ridge
Grand Opening

“ As we look to the
future, we are excited
about continued
growth opportunities in
all markets we serve. ”



ROBB BLUME President & CEO

Looking back on 2019, I am extremely proud of the accomplishments of the CFB team. Apart from the financial crisis years, 2019 may have been our most challenging. Thankfully, the vast majority of the challenges we faced and conquered were positive and were brought about by planned growth. I mentioned in last year's annual report that change, growth and improvement have been constants within CFB since our chartering in 2003 and the past year certainly proved that statement to be true.

The most obvious symbols of our growth in 2019 were the opening of two banking offices in Westfield and the beginning of construction on our full-service banking facility in Noblesville. With the opening of these new locations, the Hamilton County growth strategy that began in 2015 continues to gain momentum. Along with new locations come new people and we have been very fortunate in our ability to bring on tremendously talented new people to grow the Westfield and Noblesville markets. Fortunately, the investments in people and facilities are paying off. Total loans increased by more than 20.5% in 2019, with deposits increasing by over 12%. Total interest income was up over 15% for the year and total noninterest income increased by 26%.

New buildings, people and equipment all come with costs and those costs were born out in the final expense numbers for 2019. The largest increase in cost was reflected in employee payroll and benefits, as we increased staffing in order to generate and support new business. As mentioned above, we feel fortunate to be able to continue to hire highly qualified bankers to support our efforts. We increased our number

of full-time equivalent employees from 67 to 86 during 2019, with the rate of hiring expected to slow, considerably, in 2020. It is the feeling of management that, with a limited number of additional hires, the bank is adequately staffed to grow to the \$500 million level, and beyond. Other increases in expenses related to expansion included occupancy and equipment expenses, data processing fees and advertising expense. As with payroll expense, we would expect to see the rate of increase in these areas decline in 2020.

I am happy to report that our loan portfolio continues to perform very well, ranking near the top of our peers in almost every measurement. We have posted a net interest margin in excess of 4% for the past nine years, while maintaining low levels of delinquency and charge-offs. We also continue to maintain a higher allowance for loan and lease losses than most banks in our peer group, allowing us to be prepared for an economic downturn.

As we look to the future, we are excited about continued growth opportunities in all markets we serve. We will continue to leverage technology, to form mutually beneficial strategic alliances and partnerships, and to develop our personnel to continue to deliver superior products and services. Along with our employees, our board members are committed to continuing to build upon our strengths in order to remain a high performing, independent bank that benefits our shareholders, employees, customers and communities. On behalf of all our stakeholders, thank you for your continued support of our efforts.



Contributions & Awards

2019 TIMELINE

IU KOKOMO ENDOWMENT

Women's Basketball

COMMUNITY SPIRIT AWARD

Indiana University Kokomo

BEST PLACES TO WORK 2019

Best Places to Work in Indiana

KOKOMO CEO

Scholarship

BUSINESS OF THE YEAR

Angel Walk

Family Service Association

IU KOKOMO DONATION

Event Center

5 STAR MEMBER

Indiana Bankers Association





IVY TECH DONATION
Community Center

It is our honor to get to support our communities with these impactful initiatives. We are humbled and grateful for the awards that we have won along the way.

NEW BUSINESS OF THE YEAR

Westfield Chamber

IVY TECH DONATION

Community Center

WESTFIELD YMCA DONATION

Capital Campaign

BEST BANK IN KOKOMO

Kokomo Tribune

LARGE BUSINESS OF THE YEAR

Greater Kokomo Chamber

HAMILTON CO. HUMANE SOCIETY

Donation

STUDENT IMPACT OF WESTFIELD

Donation

BANKPAK 200 % CLUB

Indiana Bankers

Association



Financial HIGHLIGHTS



BILL BUCHANAN
Chief Financial Officer

2019 was the year of further expansion into Hamilton County where we opened two new full-service banking facilities in Westfield, along with ongoing construction of a new standalone banking location to replace our existing leased banking facility in Noblesville. While these new locations will help assure future growth and profitability, they come at a cost which is discussed below. In the future these increased costs will be more than offset by the growth in both our net interest income and noninterest income. The bank continued its strong growth trend by having total assets of \$330.7 million at December 31, 2019, which is over \$44.4 million more than the previous year end. The bank is well poised for future growth and prosperity as we continue to serve the banking needs of both Howard and Hamilton counties.

Westfield Ribbon Cuttings 2019



Oak Ridge: May 2019



Junction Crossing: October 2019

Net Income and Return on Assets versus Peer Group

The bank recorded net income of \$2.6 million for the year ended December 31, 2019 compared to net income of \$3.2 million for the same time period in 2018. The decrease was greatly influenced by our expansion efforts in Hamilton County that increased occupancy

and salary related expenses for the year ended December 31, 2019 by \$154 thousand and \$1.6 million, respectively, over the same time period in 2018. The increase in expenses was partially offset by a year over year increase in net interest income of \$1.2 million. Expanded marketing efforts and continued focus on our residential mortgage origination business were the primary drivers of our year over year increase in non-interest income of \$463 thousand. In spite of our expansion costs, the bank produced a favorable return on average assets (ROA) of 0.89% when compared to the 0.87% average ROA recorded by our peer group that consists of 207 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 2019 our net income was \$2.6 million and dividends paid amounted to \$806 thousand, resulting in an ending book value of \$23.78 per share, compared to an ending December 31, 2018 book value of \$21.67 per share based on total shares outstanding at December 31, 2019, resulting in a 9.75% increase year over year. Dividends per share in 2019 amounted to \$0.60 per share compared to \$0.56 per share in 2018.

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, 2019, NIM was 4.52% compared to 4.29% for the same time period in 2018. This compares very favorably to our Peer Group NIM of 3.79% for the year ended December 31, 2019. It is noteworthy to point out the NIM grew year over year despite the increase in the bank's total cost of funds, which went from 0.84% to 1.03% for the years ended December 31, 2018 and December 31, 2019, respectively. The increase in cost of funds was due primarily to competitive pressures within our market areas.

SUMMARY

2019 was another year of solid profitability with continued quality loan and deposit growth that resulted in a year over year 9.75% increase in book value per share based on total shares outstanding at December 31, 2019. Our team members are proud to produce such results while at the same time providing personalized, helpful and value-added services to the customers and communities that we serve. We are energized and eager to continue our high level of service to all of our stakeholders as we continue to grow in to the future!

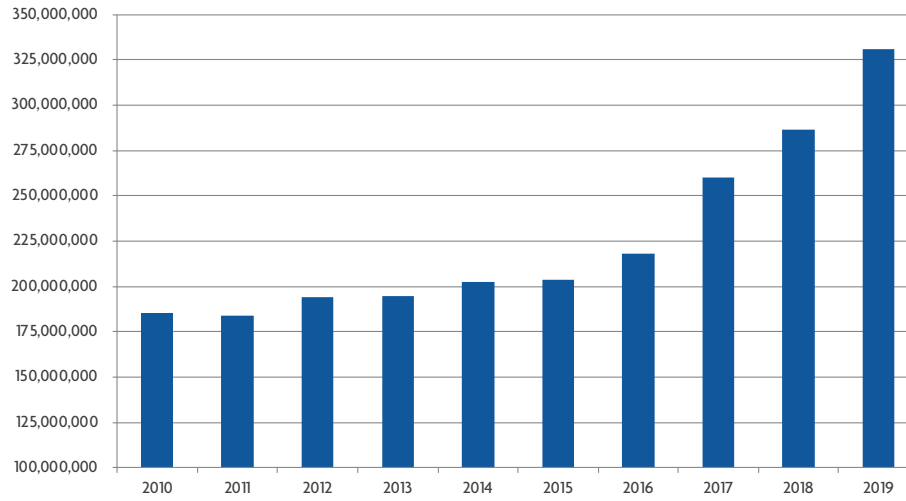


Patrick & Vicki Clifford Commercial Customer, Clifford Signs

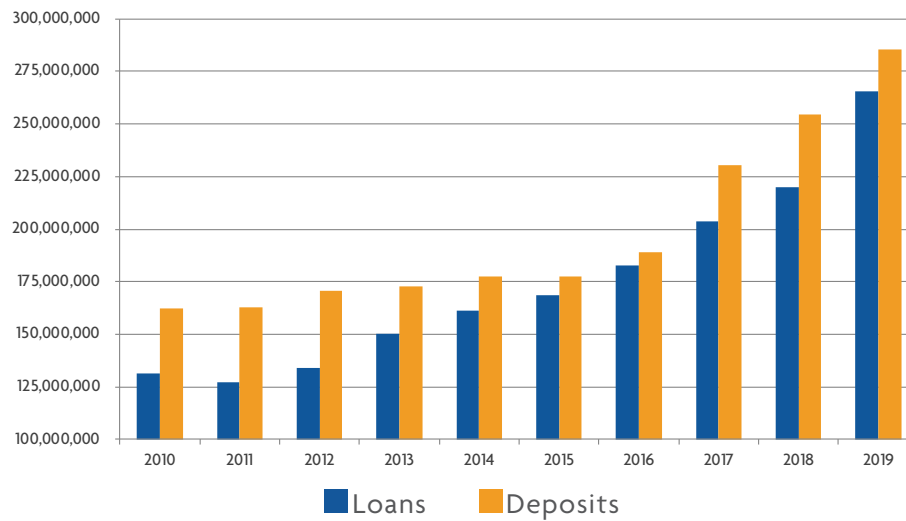
"We have been very pleased with the personal rapport gained through the years of working with the individuals at Community First Bank. All the representatives have been beyond helpful with our needs as a business."

Financial HIGHLIGHTS

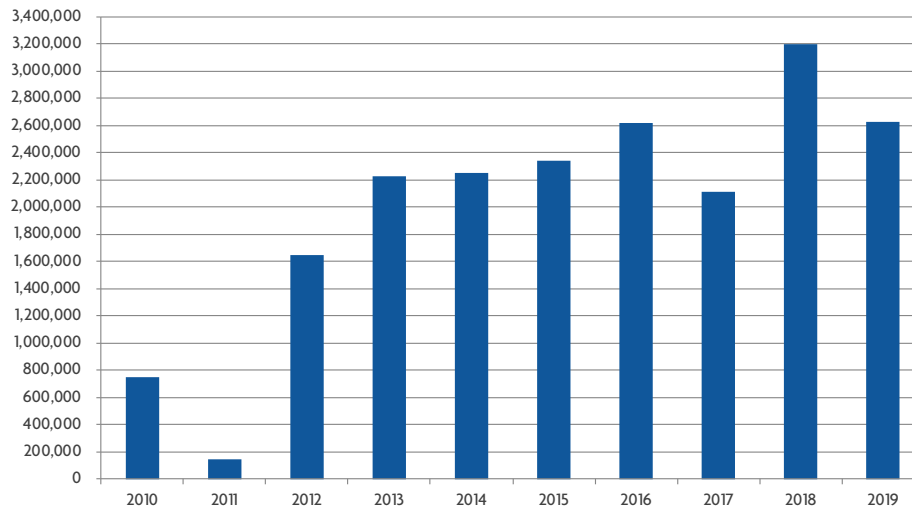
Total Assets



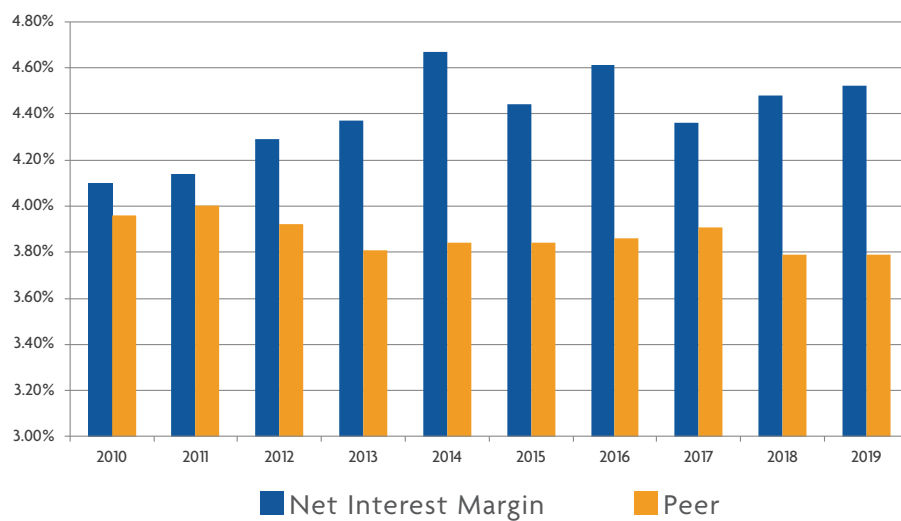
Loans & Deposits



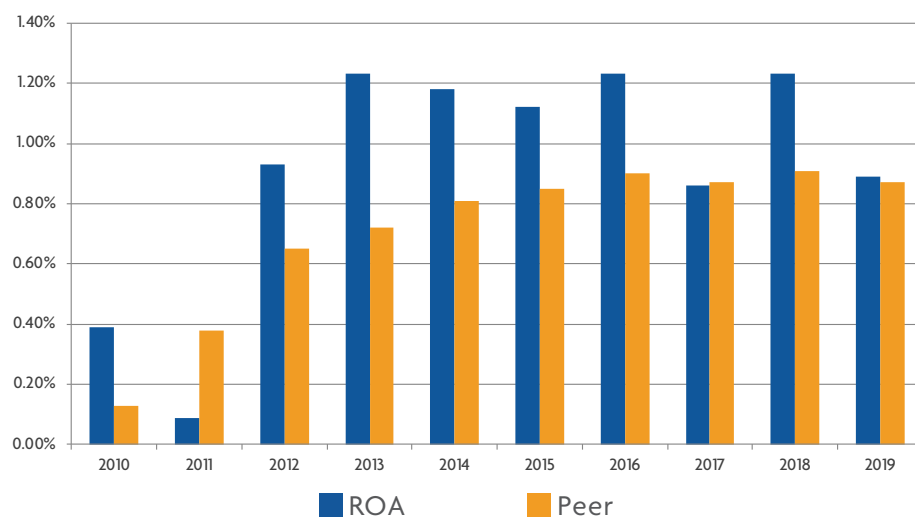
Net Income



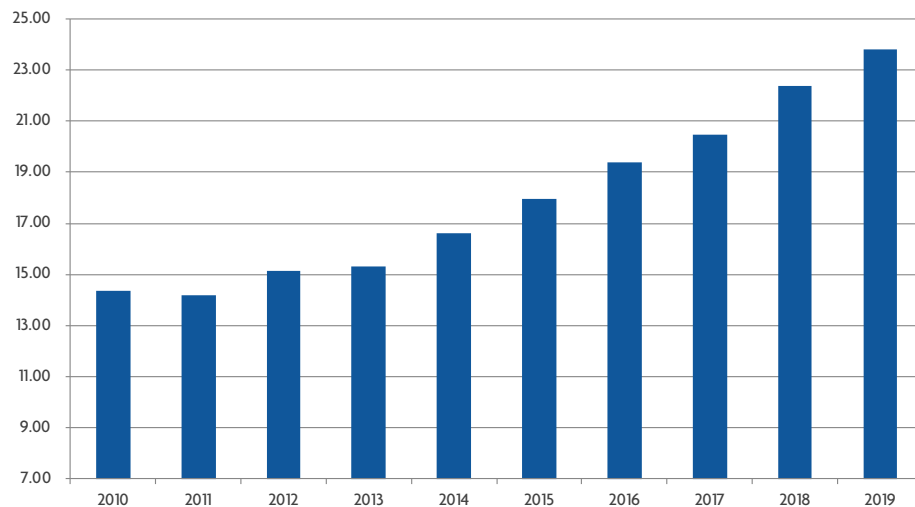
Net Interest Margin vs. Peer Group



Return on Average Assets vs. Peer Group



Book Value Per Share



Financial HIGHLIGHTS

Balance Sheets DECEMBER 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	\$ 6,530,247	\$ 6,945,107
Interest Bearing Checking Accounts	31,290,478	37,066,866
Federal funds sold	2,070,001	110,001
Cash and cash equivalents	39,890,726	44,121,974
Available-for-sale securities	5,485,530	8,501,118
Loans held for sale	650,087	305,920
Loans, net of allowance for loan losses of \$4,487,197 and \$4,367,121	260,399,059	215,558,323
Premises and fixed assets	14,460,280	8,257,159
Other Real Estate Owned	181,987	444,000
Federal Home Loan Bank stock	317,600	242,000
Interest receivable and other assets	9,354,931	9,050,357
Total assets	<u>\$ 330,740,200</u>	<u>\$ 286,480,851</u>
Liabilities		
Deposits:		
Demand	\$ 44,405,748	\$ 41,486,723
Savings, NOW and money market	153,454,895	140,446,364
Time	87,779,254	72,658,350
Total deposits	285,639,897	254,591,437
Short-term borrowings	655,000	725,000
Federal Home Loan Bank Advances	7,000,000	-
Other Long Term Borrowings	3,000,000	-
Interest payable and other liabilities	2,512,150	2,067,149
Total liabilities	<u>298,807,047</u>	<u>257,383,586</u>
Stockholders' Equity		
Common stock, \$1 par value; authorized 10,000,000 shares; 1,342,653 and 1,299,986 shares issued and outstanding	1,342,653	1,299,986
Additional paid-in capital	12,830,180	11,959,666
Accumulated earnings	17,750,575	15,930,520
Accumulated other comprehensive income/loss	9,745	(92,907)
Total stockholders' equity	<u>31,933,153</u>	<u>29,097,265</u>
Total liabilities and stockholders' equity	<u>\$ 330,740,200</u>	<u>\$ 29,097,265</u>

Book Value Per Share (A)

\$ 23.78

\$ 21.67

(A) Total shares outstanding at 12/31/2019 were used to calculate the Book Value per Share for both 2018 and 2019.

Statements of Income

YEARS ENDED DECEMBER 31, 2019 and 2018

	2019	2018
Interest Income		
Loans	\$ 14,240,836	\$ 12,157,756
Securities	457,347	601,756
Federal funds sold	42,775	32,121
Total interest income	14,740,958	12,791,633
Interest Expense		
Deposits	2,667,130	1,932,908
Other borrowings	69,283	11,882
Total interest expense	2,736,413	1,944,790
Net Interest Income	12,004,545	10,846,843
Provision for Loan Losses	225,000	350,000
Net Interest Income After Provision for Loan Losses	11,779,545	10,496,843
Noninterest Income		
Service charges on deposit accounts	448,450	307,968
Fees on loans sold	571,206	369,167
Net realized losses on sales of available-for-sale securities	-	-
Other	1,253,915	1,133,985
Total noninterest income	2,273,571	1,811,120
Noninterest Expense		
Salaries and employee benefits	6,506,291	4,945,506
Net occupancy expense	513,033	358,520
Equipment expense	586,115	369,043
Data processing fees	1,048,205	905,381
Professional fees	177,455	139,609
Advertising expense	479,589	193,919
Printing and office supplies	112,594	64,961
Other	1,117,650	1,063,840
Total noninterest expense	10,540,931	8,040,779
Net Income (Loss) Before Taxes	\$ 3,512,185	\$ 4,267,184
Income Taxes	886,537	1,072,332
Net Income	\$ 2,625,648	\$ 3,194,852

Net Income Per Share (B)	\$ 1.96	\$ 2.38
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(B) Total shares outstanding at 12/31/2019 were used to calculate the Net Income Per Share for both 2018 and 2019.



LARRY ROLLAND Head of Investments

Community First Investment Group had a successful year in 2019 with net revenue to the bank of \$431,746. This was an increase of \$31,129 compared to 2018. Our department continues to focus on advisory (fee-based) accounts versus commission-based accounts with advisory revenue increasing by 25% compared to 2018. The reason for that focus is not only the ongoing revenue it produces, but those accounts are generally better for clients and looked upon more favorably by regulators.

We started the conversion to a new broker-dealer in January 2019 and mostly finished the transition by July 2019. The reason we elected this change was not only the enhanced selection of products and services we are now able to provide to clients, but the data and feedback we now receive from the new broker-dealer that enables us to better manage our department.

It has been nearly thirteen years since the bank elected to offer investment products to clients. During that time, we have been successful in expanding our customer base while focusing on providing excellent service. All of us strive to understand the financial and personal goals of our clients so we can provide the best advice possible. We offer a full-range of financial planning services that was further enhanced by our change to LPL and Banker's Bank. Our full range of financial services includes advisory services, mutual funds, ETFs, real estate trusts, annuities, and individual stocks and bonds. We also assist 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 understand that we are a vital part of the bank and encourage our clients to use Community First Bank for their banking needs. We realize that while we appreciate referrals from bank personnel, it is incumbent on us to refer our clients back to the bank for deposit accounts, mortgages, home equity loans, small business loans, and other services.

Overall, 2019 was an excellent year for our department and we look forward to continuing to add value to both the bank and our clients in 2020.



WENDELL PROPEs Mortgage Department Manager

CFB's Mortgage Department had a successful year in 2019, partially fueled by continued low residential mortgage loan rates. Our total retail loan balances (residential mortgage, consumer, and home equity) increased 45% from 2018 to 2019. The major portion of that increase came from residential mortgage loans, which went up by over \$19,000,000.

We are currently holding in excess of \$58,000,000 in retail portfolio loans earning interest income for the bank. Interest income also had a tremendous increase in 2019, going up more than \$700,000 for the year. Again, the major portion of that coming from residential mortgage loans. Helping fan those flames was a recently developed relationship with another mortgage lender in the Central Indiana market. That relationship allowed CFB to act as a "warehouse" for construction to permanent loans during the construction period and was a significant source of loan volume and interest income during the second half of 2019.

Retail loan fees climbed 51% in 2019 helping to fuel income for the department. In addition, fees on loans sold grew 35% in 2019 for a total of over half a million dollars.

All of the above was fanned by our production in 2019. Our retail loan production more than doubled compared to 2018. The bank's total residential mortgage originations in 2019 were over \$30,000,000. Again, more than twice that of 2018.

I know I have given you a lot of numbers, but what about our staff? We are currently adding to our production staff to help increase CFB originations in the communities in which we serve. Along with that will come additional support staff to get those loans processed, approved, and onto our system (or sold to an investor). We have a fine staff and look forward to the opportunities 2020 will offer.



BOB HICKMAN Chief Credit Officer

What a difference a year makes.

As the calendar pages shifted to January of 2019, business owners looked out upon a horizon filled with economic storm clouds. Despite several years of growth and expansion, things were starting to look bleak. After a long winning streak, the Dow had tumbled, losing 18.6% of its' value in the fourth quarter of 2018. The Federal Reserve had adopted a policy of increased interest rates, with four rate hikes implemented during the year. Consumer confidence was down, and the continued escalation of a trade war with China seemed inevitable.

Then it all changed. Realizing that perhaps the current policy of rate hikes was pushing the economy towards a recession, the Fed reversed course, and instead of the planned additional rate increases in 2019, we saw three rate cuts. The economy and the markets responded. GDP was surprisingly strong in the first quarter of 2019, employment numbers remained robust, the trade tensions with China started to ease, and the stock market soared.

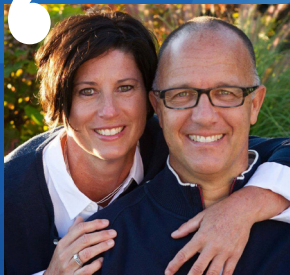
This positive change in fortune impacted the economy on both national and local levels, which was good news for your bank. As businesses continued to expand, Community First experienced outstanding net loan growth of almost \$45 million dollars in 2019, an increase of 20% from the previous year. Certainly, a significant amount of this growth was expected due to the resources that we had devoted to increasing our market presence in Hamilton County. However, a resurgent economy added the fuel necessary to reach even greater heights than we could have expected.

Loan growth is an essential component of the bank's strategy to expand and diversify into the Westfield/Noblesville markets. To absorb the overhead necessary to build and staff three branches, the bank needs to increase our earning asset base. However, this growth cannot come at the expense of increased credit risk. As 2019 came to a close, Community First continued to enjoy excellent loan quality metrics that matched up extremely well to our peer institutions. That is what truly made last year such a successful year for your bank.

A combination of great people, great products, and a favorable economy all helped Community First Bank to attain profitable loan growth in 2019. With a strong lending team and a now-completed branch network in place, we look forward to continued success in 2020.



“



David Rocchio Mortgage & Commercial Customer, The Rocchio Agency

You'll get great service, fair pricing, and comprehensive underwriting of your requests. They make good loans to good people and organizations.

Testimonials

“



Tracy Martino

Commercial Customer, Family Service Association

Community First Bank employees demonstrate commitment to improving the communities they serve every day, through their actions both on and off the job.

“



Jason Crace

Commercial Customer, Crace + Beam CPA

Their rates are competitive, the business perspective is better than your big box banks and their people treat you like a customer and a friend, not just an account number.

“



Desmond Mathews

Commercial Customer, Cornerstone Support Services

My experience has felt like it was customized exactly for my needs. ...I was able to sit down with decision makers at Community First and find a pathway to get me what I needed for my expansion. ...The atmosphere was very professional, helpful, and most importantly the atmosphere is personal. I hold them in the highest regard!

Locations

Main Office



201 W. Sycamore Street, Kokomo

Oak Ridge



707 E. State Road 32, Westfield

Dixon



2101 S. Dixon Road, Kokomo

Junction Crossing



381 S. Junction Crossing, Westfield

Hoffer



1308 E. Hoffer Street, Kokomo

Pebble Village



5570 Pebble Village Lane, Suite 400, Noblesville

Pebble Village: February 2020



17661 Village Center Drive, Noblesville

7 Locations

3 Cities

1 Bank



14 organizations
served through
CFB Cares



Our CFB Cares Committee
helps organize service
opportunities for our
employees. This year
we have volunteered or
financially supported 14
nonprofit organizations in
our communities.



\$82,000+

in bank donated funds
to assist nonprofits in
our communities



\$19,000+ in employee donated funds

Community INVOLVEMENT



"Community First Bank lives up to its name... COMMUNITY FIRST!! Thanks, Robb Blume and crew for serving at MiniUP tonight!!"
- Jeff Newton
Urban Outreach



6,000+

Volunteer hours
outside of the
bank



"Thanks to Community First Bank of Indiana for giving your staff the freedom to do this (mentor) and encouraging them to give back to our great community!"
- Bridges Outreach

MISSION

The mission of Community First Bank is to be a high performing independent bank that, as a preferred employer, recruits, trains and retains superior personnel to utilize appropriate service skills, technology and tools to deliver a world class customer experience, resulting in positive outcomes for our shareholders and communities.