



CITY FIRST BANK OF DC

We see the possibilities





1998-2008

CELEBRATING 10 YEARS

CHAIRMAN'S GREETING

Dear Friends,

On behalf of the Board of Directors and staff, I am pleased to present City First Bank's 2008 annual report.

Since its inception, City First Bank has been dedicated to building economic prosperity in the underserved communities of the greater Washington, DC area. Our mission to strengthen and promote investment in underserved communities is even more relevant against the backdrop of what is happening in our economy today. The current economic crisis has certainly put a spotlight on the importance of a strong mission-oriented bank like City First to be the bridge between the community that needs access to capital and a financial services industry that is facing some difficult challenges. As mainstream lenders continue to pull back, City First Bank is in a unique position as a community development financial institution to make money available for local businesses, affordable housing and community development projects.

2008 was a milestone year for us in many ways. One of the most significant was our successful transition to a new President and CEO, Dorothy Bridges. I hope many of you have met Dorothy and share my enthusiasm for her leadership and demonstrated achievements in community development and banking. I know we can confidently look to her to guide the next decade at City First Bank.

Also in 2008, we continued to play a major role in building our communities. In April, City First Bank closed on its largest New Market Tax Credit transaction by providing \$21 million in permanent financing to build a new facility for the Euphemia L. Haynes Public Charter School. E. L. Haynes opened in 2004 and has become one of the premier charter schools nationwide. The new facility, located at 3600 Georgia Avenue, NW, is 46,000 square feet with 22 classrooms, a science lab, art room, music room, gym, and future roof top playground. In mid-August we received \$658,000 in a Bank Enterprise Award from the Department of Treasury for our increased loans in targeted low income communities. And we received our third allocation of New Market Tax Credit authority of \$67 million to deploy on large scale community development projects in our targeted communities.

This year City First Bank is celebrating 10 years of business. I am proud of City First Bank and those who have devoted themselves to its mission, and am privileged to have been a part of the City First family since its founding. At City First Bank, we know that the secret to sustainability is an intimate understanding of our community and a keen sense of commitment to our customers. These were and still are the hallmarks of our institution. Even as we celebrate 10 years of success, we are compelled to look forward to the next decade of building capacity in low and moderate income communities in our marketplace. Thank you for your support.

Sincerely,

Chuck Muckenfuss, Chairman
Board of Directors

“Our mission is to strengthen and promote investment in underserved communities in the Washington region by providing credit, banking services, and access to financial education for individuals, organizations, and businesses.”



CEO’S GREETING

WOW! My first year with City First Bank has been a whirlwind! I sincerely thank you for welcoming me to Washington and making my first year an enjoyable one. Having been involved with community development banking for more than 20 years, I came to the bank with deep industry knowledge and a strong passion for the bank’s mission. Being here in Washington and working at City First is a privilege and a great opportunity.

Against the backdrop of the economic recession in 2008, City First Bank achieved strong results:

- We financed 1,088 units of special needs, transitional, and affordable rental housing.
- We created and maintained 127 jobs by making loans to small businesses and nonprofit organizations.
- We financed 9 community facilities—charter schools, recreation, day care and arts centers—which allowed 4,916 children to receive important educational services including new charter school seats.

Also this year, we were successful in completing the necessary initiatives to strengthen the bank’s operations to our regulators’ satisfaction. As a result, the formal agreement was lifted. From this position of strength, we plan to turn our attention to growing the bank in the next three years.

In spite of the challenges in today’s market, we believe that the opportunities for City First, a nimble, community-oriented bank that serves sectors overlooked by others, are tremendous. Our mission is as relevant today as it was 10 years ago, so we want to capitalize on our unique market strengths to expand our reach to new sectors and develop new products and services that meet our customers’ needs.

Our goal is to continue to focus on financing small companies that create jobs; tailor commercial real estate products to reflect the current market realities; and effectively use our New Markets Tax Credit product to catalyze large-scale community improvement such as the E. L. Haynes Public Charter School in the Petworth neighborhood.

As I continue to learn more about this market, I look forward to working with each of you, and to our deeper collaborations in the future. Again, I thank you for your generous hospitality and your continued commitment to City First Bank and its important work.

Sincerely,

Dorothy Bridges
President and CEO

2,356 jobs

Our loans to small businesses and nonprofit companies helped to create or retain 2,356 jobs.



EMPLOYMENT



EDUCATION

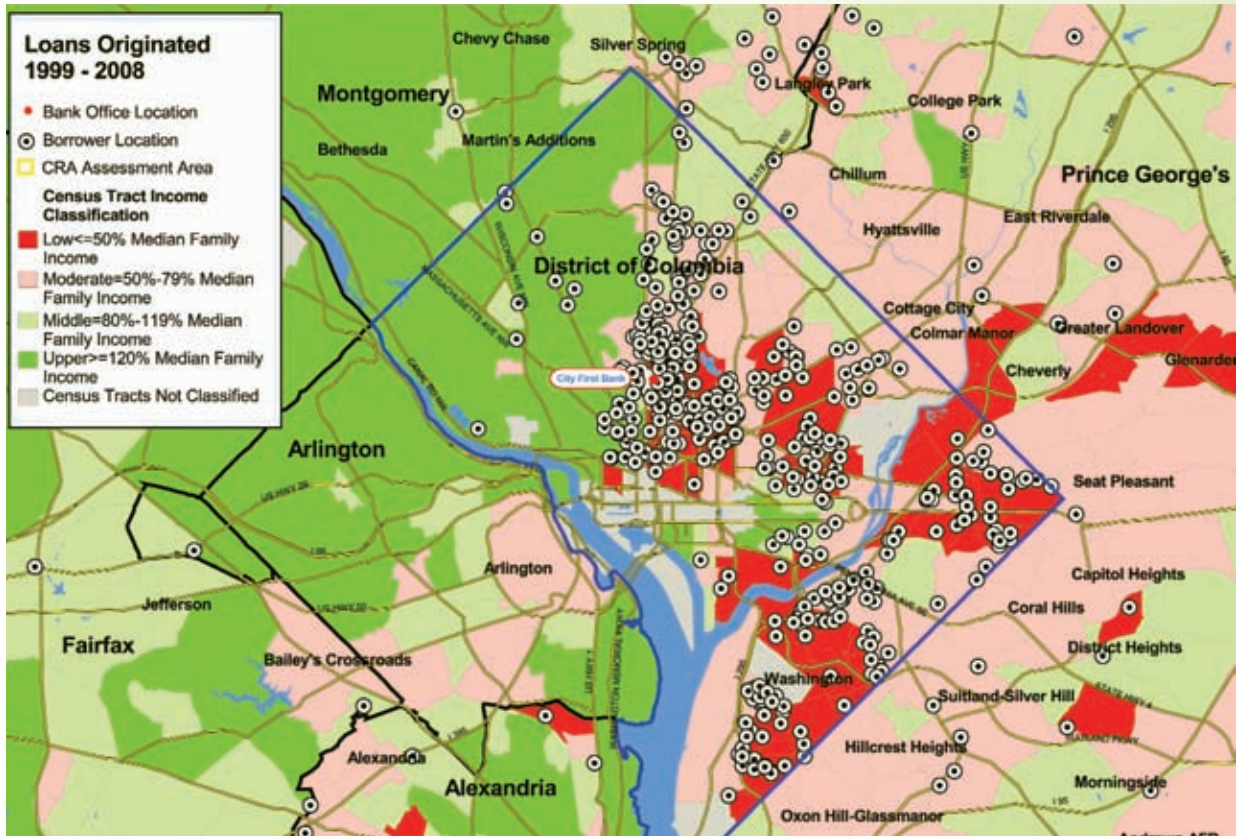
LEVERAGE

For every \$1 deposited in City First Bank, we lend \$8 in our underserved markets.

5,120 children

5,120 children have received educational benefits from charter schools financed by City First Bank.

Over our 10 year history, City First has invested most heavily in underserved neighborhoods east of 16th Street and in Wards 7 and 8.



3,994 homes

HOUSING



City First loans financed 3,994 special needs, transitional and affordable housing units.

Small businesses are the lifeblood of urban communities – they not only provide easy access to consumer goods and services, but also help to give communities their distinct flavor.



Kinetik Owners Jeff Fabian and Sam Shelton

Small businesses are the lifeblood of urban communities – they not only provide easy access to consumer goods and services, but also help to give communities their distinct flavor. Retail stores, restaurants, and service businesses are a key component of healthy, well rounded communities. Neighborhoods with a vibrant retail presence are increasingly attractive for homebuyers and renters – from young first time buyers to empty nesters. And small businesses play another vital role – providing employment opportunities.

The SBA annual report, “The Small Business Economy,” 2008 found that 74% of net new jobs were created by small firms with fewer than 500 employees and 22% were created by businesses with less than 20 employees. That is why small business financing is such a vital component of the City First Bank mission. We serve borrowers that are largely ignored by traditional banks. These include start-up companies, businesses with a short historical track record, and borrowers who need smaller loans that offer predictable payments. City First lends to companies using flexible terms and conditions that permit lower owner equity or debt service ratios and offer fixed payments so that debt costs can be more easily predicted and managed. Further, we establish partnerships with government and not-for-profit organizations that bring down financing costs and offer more flexibility.

Last year, City First made 12 loans to small businesses totaling \$4.46 million. Of them, 25% of the loans were to start ups or opening of new locations for existing businesses. Our loans include lines of credit for business operations, term loans, and commercial real estate loans for building acquisition, construction, or rehabilitation. All of the loans originated were to businesses with less than \$1 million in annual revenue – a market segment that is underserved by larger, regional commercial lenders.

Of the loans originated, all but one were in amounts of less than \$1 million. And most important, the City First financing created 43 new jobs and retained 67 jobs – a total of 110 local neighborhood-based jobs.

One example of our small business financing is a recent loan to Kinetik Communications Graphics, a local graphic design and communications firm. The financing allowed the company to stay in its neighborhood and to purchase its own property. The new building was designed specifically to meet the needs of Kinetik and provides space for the company to expand. By leveraging the SBA 504 program, City First structured a loan that minimized Kinetik’s down payment requirements and allowed them to purchase and renovate a mixed-use building at the crossroads of Adams Morgan and U Street. After more than twenty years in business, owners Sam Shelton and Jeff Fabian were able to obtain space appropriate for their needs and secure a permanent home for Kinetik. You can see Kinetik’s award winning designs at www.kinetikcom.com.



Kinetik Communications Graphics



The estimated 27.2 million small businesses in the United States employ about half of the country's private sector workforce.

***Source: U.S. Small Business Administration
Office of Advocacy, September 2008***

We serve borrowers that are largely ignored by traditional banks. These include start-up companies, businesses with a limited historical track record, and borrowers who need smaller loans that offer more flexible terms and conditions. Last year, City First financed 329,261 square feet of commercial space.

Joel and Alicia Mehr and Tom Marr came to City First with the dream of opening a casual pizza restaurant to introduce DC to real “New Haven style” pizza. Although each had over a decade of experience in restaurant management as executive chefs and caterers, they found that obtaining financing for a start-up with no track record was a serious challenge until they came to City First.

Financing Pete’s New Haven Style Apizza was a natural fit for us. Located up the street from the bank’s original 14th Street location, Pete’s Apizza is part of an economic re-birth of Columbia Heights, a renaissance sparked by the revitalization of the Tivoli Theatre, another project financed by City First. We provided a SBA guaranteed loan to build out the restaurant space, purchase equipment, and get the business launched. Today, Pete’s Apizza employs about 25 people. It has been a hit with both everyday folks and the critics, and scored a spot in *The Washingtonian’s 100 Best* restaurants in Washington less than a year after opening.



Pete's Apizza, Co-Owner Joel Mehr

**In 2008, City First loans
to community facilities
helped serve an
additional 4,916 children.**



Supporting community facilities - charter schools, community recreation and arts centers – is also a pivotal market sector for City First. During the year, we financed nine community facilities for a total of \$6.9 million. These loans helped community based organizations to serve an additional 4,916 children.

The real estate term loan to the Emergence Community Arts Collective (ECAC) is one example. ECAC is a nonprofit with a mission focused on fostering a spirit of community within its neighborhood by offering social activities, traditional arts classes, support groups and educational seminars. City First financing allowed ECAC to purchase the building it had been renting near Howard University. Last year, about 2,300 people participated in a diverse range of programs at ECAC, including garden clubs, financial planning, quilting, yoga, and belly dance classes. In addition to offering its own programming, four other nonprofits lease space in the building. This creates a synergy that lowers operating costs and provides an effective mechanism to provide clients with a range of services.

City First values community based organizations like ECAC – they are critical to the development of stable neighborhoods and provide vital community programs and services to people of all ages. Although ECAC is a young and relatively small nonprofit, City First took the time to get to know the organization. We were able to put together a loan with a creative structure that allowed ECAC to put down permanent roots in the neighborhood it serves.





In 2008, City First financing created an additional 471 new charter school slots in DC.



DC Prep Public Charter School

City First values partnerships. We specialize in collaborating with alternative sources of financing and credit enhancement such as nonprofits and local governments. This was the case when the bank teamed with the District of Columbia and Building Hope, a nonprofit that provides technical and financial assistance to charter schools. The partnership allowed City First to finance the renovation of two former public schools for use as incubators for early stage charter schools. Because the school buildings are publicly owned, they were not available to be pledged as collateral. To overcome this obstacle, the parties collaborated to identify alternative collateral in the form of a federal grant administered by the District. With the help of this creative financing and an accelerated renovation schedule managed by Building Hope, the schools were delivered in time for the opening of the 2008-09 school year. Draper Elementary became the home of Achievement Prep and Benning Elementary now houses DC Prep and NIA Public Charter Schools. Together the buildings account for 120,000 square feet and support 407 students.



In 2008, City First originated 13 loans to finance affordable and special needs housing, resulting in a total of 1,088 new housing units.

Partnerships are key to our ability to finance projects that require deep subsidy, such as special needs housing that is affordable. The financing of Daffodil House, an affiliate of Building Futures, is one such project. Building Futures is a nonprofit organization dedicated to increasing access to safe, affordable, quality housing for families and individuals living with HIV/AIDS. Daffodil House acquired a 32-unit property in Northwest Washington last year with the help of a City First loan through the District of Columbia's Site Acquisition Funding Initiative (SAFI) and a later below-market SAFI loan from Cornerstone, Inc., a nonprofit loan fund. Cornerstone is a longtime friend of City First, and we were thrilled to partner with them to make the Daffodil House acquisition possible. Daffodil House will provide much needed permanent, special needs housing for people living with HIV/AIDS, including case management, employment support, and enrichment programs.

In a similar transaction to provide special needs housing, City First refinanced a loan to Urban Outreach, a faith-based nonprofit organization that serves low income residents by providing services that include a soup kitchen, substance abuse counseling, and various youth services. It is affiliated with the Assemblies of God Church and has been serving the Ward 7 community for more than 10 years. The City First loan substantially reduced the debt service on a church-owned nine unit residential building that houses clients of the DC Department of Mental Health Home First II program. Persons with emotional challenges can sometimes be the most difficult to house, so the City First loan was critical to the ability of Urban Outreach to manage expenses and continue to operate the facility.



Daffodil House, Steve Seuser

In aggregate, City First NMTC financed projects have created 1,017 construction jobs, retained 439 existing jobs and created 289 new jobs. Our NMTC financing has resulted in the development of 116 units of for-sale housing of which 98 were affordable for low to moderate income buyers and 117 units of rental housing. A total of 2.046 million square feet of real estate has been financed.

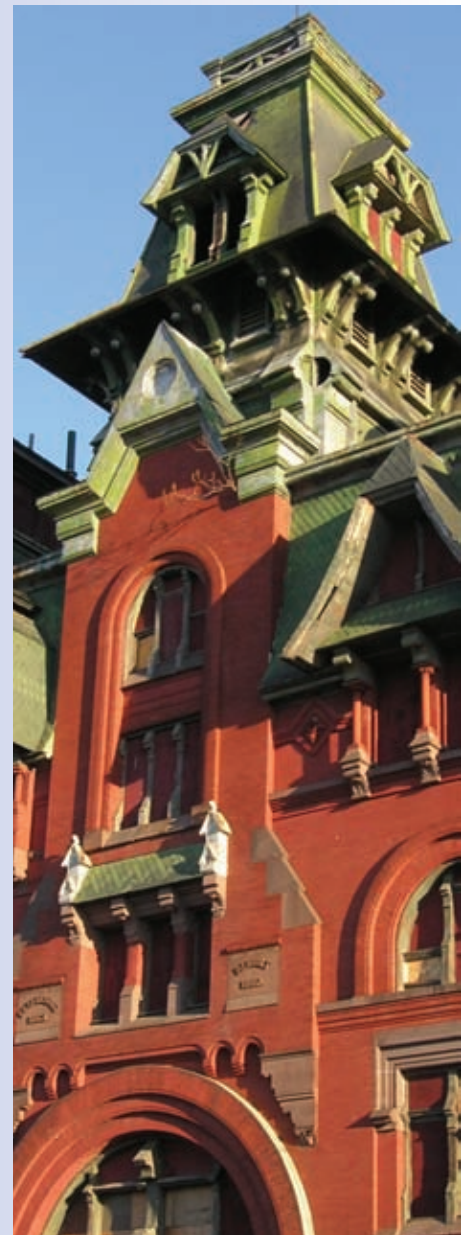
Thurgood Marshall Academy – Anacostia



THEARC – Washington, DC



Humanim – Baltimore



Since we entered the New Market Tax Credit (NMTC) finance arena in 2004, City First has been an influential industry leader. The NMTC program offers tax credits as an incentive for private investment in eligible projects that benefit low income communities by providing jobs, vital consumer goods and services, and access to educational, health, and recreational services. Using the NMTC product, City First far exceeds its typical lending authority – our deals have ranged in size from \$4 million to \$21 million. NMTC deals target the most highly distressed communities – those with high poverty and unemployment rates, and where the median income is low. Communities around the country have benefited from the program, which has financed large scale developments such as performing arts centers, mixed use commercial and retail buildings, and transit centers.

Here in Washington, City First has played a key role in many such projects. We have been awarded a total of \$230 million in NMTC authority in three cycles. With our minority partners, The Bernstein Companies, City First has deployed \$112.4 million in NMTC financing that leveraged \$255 million in total development costs. Among the projects we have financed are Tivoli Square, THEARC, Atlas Performing Arts Center, 4th Street Vistas, and E. L. Haynes Public Charter School. We have also financed projects in other low income communities like the American Brewery in East Baltimore, now home to Humanim, statewide social service agency. City First also holds a minority interest in a partnership with the Charter School Development Corporation, or CSDC, which has deployed \$40 million for the development of new charter school facilities, such as The Thurgood Marshall Academy Public Charter School in the Anacostia neighborhood of Ward 8.

The impact of our NMTC financing has been phenomenal. Because of the scale and scope of the projects, these deals have transformed their communities. In aggregate, NMTC financed projects created 1,017 construction jobs, retained 439 existing jobs, and created 289 new jobs. The financing resulted in the development of 116 units of for-sale housing – of which 98 were affordable for low to moderate income buyers – and 117 units of rental housing. A total of 2.046 million square feet of real estate has been financed.





Debbi Hurd Baptist
1949—2000

THE BAPTIST AWARD

The Baptist Award was established in memory of our founding President and CEO, Debbi Hurd Baptist. Each year, City First honors partners who exemplify Debbi's commitment to improving the economic health of low and moderate income communities in Washington. This year, the Baptist Award celebrates the work of Building Hope, Metropolitan Washington Bankers Group and Kelly Sweeney McShane.

Building Hope

Building Hope was established based on the premise that excellent public charter school programs and facilities help to transform economically depressed neighborhoods into places where children thrive. The organization supports academically successful schools by providing technical and financial assistance in the development or expansion of suitable school buildings and facilities. Such schools not only maximize the success of their students, but also build the capacity of public charter schools to grow their enrollments and catalyze change across their local public education systems. In the past five years, Building Hope has made direct loans and credit enhancements of over \$45 million to charter schools. Their financing has resulted in over 1.6 million square feet of space constructed and supported over 18,000 students.

Metropolitan Washington Bankers Group

Metropolitan Washington Bankers Group is an association of community reinvestment act professionals representing most of the large and local banks serving the Washington region. MWBG was organized more than 20 years ago as a collective to promote fair and equitable access to financial services throughout the marketplace, and to provide consumer education and technical support to underserved communities.

The goal of MWBG is to ensure that all communities and neighborhoods, including those with limited assets and low wealth, are good places which to live, work, raise families and do business. The Metropolitan Washington Bankers Group has hosted or facilitated numerous community service activities including credit education workshops; anti-predatory lending education courses; training and capacity building classes for community based organizations and community development corporations; community forums on affordable housing and mortgage financing; and seminars on consumer financial literacy.

Kelly Sweeney McShane

Kelly Sweeney McShane has served as executive director of Community of Hope since January 2001. Community of Hope's mission is to improve the health and quality of life for low-income, homeless, and underserved families and individuals in the District of Columbia. They provide healthcare, housing with supportive services, educational opportunities, and spiritual support. During Kelly's tenure, the organization has doubled in size and in the number of families it serves. Kelly serves on the board of directors of the DC Primary Care Association and is a member of the Mayor's Interagency Council on Homelessness. She is co-author of a book entitled *Winning Ways: Great Nonprofit Management Ideas*.



2007

The Cooperative Assistance Fund
Edward E. Furash
Sue Marshall

2006

Latin American Youth Center and the Latin American YouthBuild Public Charter School
Desa Sealy Ruffin

2005

SOME, Inc.
E. L. Haynes Public Charter School
Atlantic Street Baptist Church

2004

Brightwood Manor Tenants Association
Booker T. Washington Public Charter School for Technical Arts
Hemingway Memorial African Methodist Episcopal Church
Andre's Brushless Car Wash
Career Technical Institute, Inc.

2003

Nextgen Construction and Renovation
Washington Math Science Technology Public Charter High School
Floyd Myers, Marshall Heights Community Development Organization

2002

Adrian Washington, Neighborhood Development Corporation
North Capitol Neighborhood Development, Inc.
Washington Area Community Investment Fund, WACIF
One Economy and Columbia Heights/Shaw Family Support Collaborative
Warren Brown, CakeLove

2001

Gregory Maison
Visions Cinema / Cafe / Lounge
Capital City Public Charter School
Hercules Pitts, HOP and Associates

2000

Bethel Christian Fellowship Church
Venus Peterson/SkilledCare, Inc.

2008 FINANCIALS

CF BANC CORPORATION & SUBSIDIARIES

Comparative Consolidated Statements of Income (Loss) and other Key Data

	Years ended December 31,	
	2008	2007
INCOME STATEMENT DATA:		
<i>(\$ in thousands, except per share data)</i>		
Interest income	\$ 8,436	\$ 8,368
Interest expense	2,802	3,593
Net interest income	5,634	4,775
Provision for credit losses	75	-
Net interest income after provision for credit losses	5,559	4,775
Noninterest income	1,694	2,353
Noninterest expense	6,787	6,477
Income (loss) before income taxes	466	651
Income taxes benefit (expense)	(141)	(272)
Net income (loss)	\$ 325	\$ 379

COMMON SHARE DATA:

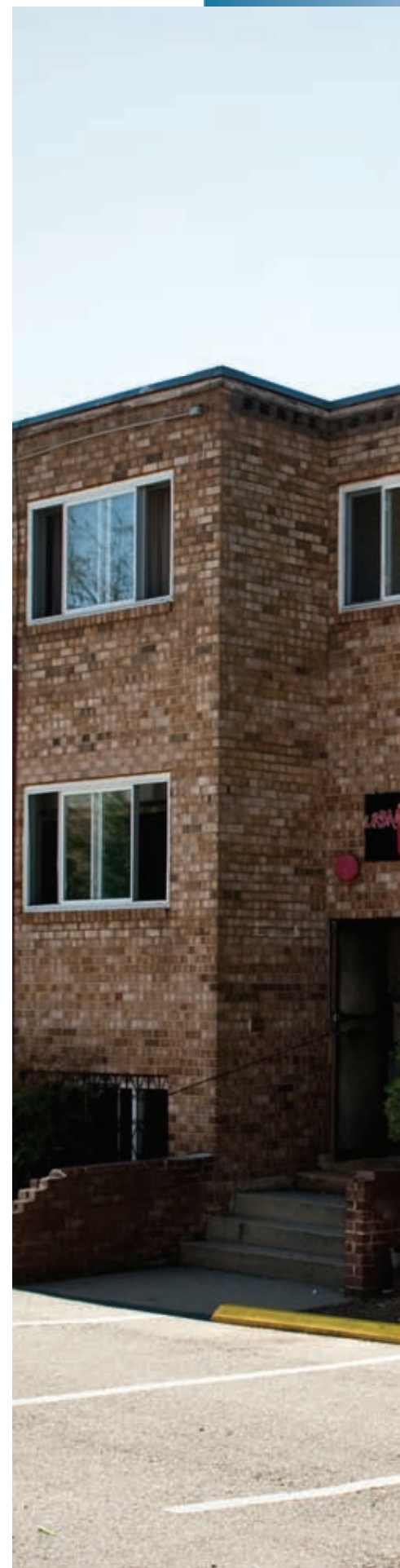
Net income	\$ 0.17	\$ 0.20
Book value	10.11	9.85
Common stock outstanding at end of period	1,896,113	1,896,113
Weighted average Common shares outstanding during period	1,896,113	1,805,428

BANK PERFORMANCE DATA:

Return on average total assets	0.23%	0.30%
Return on average total equity	1.73%	2.18%
Net interest margin	3.94%	4.01%
Loans to deposits	93%	75%

BANK CAPITAL RATIOS:

Tier 1 risk-based capital	16.86%	17.02%
Total risk-based capital	18.13%	18.29%
Tier 1 leverage	12.84%	14.48%





CF BANC CORPORATION & SUBSIDIARIES

Comparative Consolidated Balance Sheets

	Years ended December 31,	
	2008	2007
BALANCE SHEET DATA:		
(\$ in thousands, except per share data)		
Assets:		
Cash & due from banks	\$ 1,535	\$ 13,431
Short-term Investments	11,908	19,605
Investment Securities	24,348	25,382
Loans, net	95,557	82,189
Other Assets	8,300	9,462
Total Assets	\$ 141,648	\$ 150,069
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 10,430	\$ 14,268
NOW	6,802	8,182
Money Market & Savings	29,047	26,840
Time, \$100,000 or more	12,067	14,409
Other time	46,952	48,951
Total Deposits	105,298	112,650
Borrowings	15,424	16,625
Other Liabilities	1,765	2,118
Total Liabilities	122,487	131,393
Stockholder's Equity	19,161	18,676
Total Liabilities & Stockholder's Equity	\$ 141,648	\$ 150,069

Loan Portfolio Composition

	At December 31,	
	2008	2007
	(In thousands)	
Commercial business	\$ 24,065	\$ 16,585
Real Estate:		
Commercial mortgage	59,560	51,884
Construction and land development	15,127	16,952
Installment loans to individuals	13	38
Total Gross Loans	98,765	85,459
Less: net deferred loan fees	(471)	(468)
Total Loans, net of deferred fees	98,294	84,991
Less: Allowance for credit losses	(2,737)	(2,802)
Loans, net	\$ 95,557	\$ 82,189

MANAGEMENT

Board of Directors

Cantwell (Chuck) F. Muckenfuss, III, Chairman of the Board, Partner, Gibson, Dunn & Crutcher, LLP

David McGrady, Vice Chairman of the Board, Consultant

Dorothy J. Bridges, President and CEO, City First Bank of DC

John M. Hamilton, President, City First Enterprises, Inc.

Joseph F. Horning, Jr., President, Horning Brothers

Leonade D. Jones, Director, American Funds Mutual Funds

Thomas F. Kelley, Consultant

Nicole Mandeville, Senior Vice President Finance and Treasurer, The Freedom Forum

Hassan Minor, Jr., Senior Vice President, Howard University

Robert Peck, Senior Vice President, The Staubach Company

Desa Sealy Ruffin, President, Gotham Development

W. Christopher Smith, Chairman and CEO, William C. Smith & Company



Executive Officers

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Marie Mann Bibbs, Executive Vice President, Director, New Market Tax Credit Program

Kimberly J. Levine, Executive Vice President, Chief Financial Officer

William F. Lindlaw, Executive Vice President, Chief Lending Officer

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Carmen Ramos-Watson, President and CEO, QMRI, Inc

William L. Robertson, Consultant

Andrew Tomback, Partner, Milbank, Tweed, Hadley & McCloy LLP

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Freddie Lewis Archer, President and CEO, Lewis Real Estate Services

Lessie Powell Evans, Real Estate Development and Finance Consultant

Linda Jackson, President, East of the River Community Development Corporation

Karen Kollias, Loan Fund Director, NCALL Research

Kevin McQueen, Partner, Brody Weiser and Burns

Henry Posko, President and CEO, Humanim

Michael Tierney, Executive Vice President and Chief Operating Officer, LISC

SHAREHOLDERS & DEPOSITORS

Shareholders

Ameritrust Capital Corporation
Calvert Social Investment Fund Balanced Portfolio
Capital One, FSB
CDFI Fund
CitiCorp
City First Enterprises
Community Foundation of the National Capital Region
Cooperative Assistance Fund
Fannie Mae
Ferris Baker Watts
Georgetown University
JPMorgan Chase Community Development Corporation
M&T Bank
National Community Investment Fund
PNC
SunTrust Bank, NA
SunTrust Community Development Corporation
Wells Fargo/Wachovia Affordable Housing Community Development Corporation
Wells Fargo/Wachovia Bank

Major Depositors

Calvert Social Investment Foundation
Centronia
Charter Schools Development Corporation
City First Enterprises
Community Foundation of the National Capital Region
Community Partnership for the Prevention of Homelessness
Cooperative Assistance Fund
Cornerstone
Enterprise Community Loan Fund
General Council on Finance and Administration of the United Methodist Church
Government of the District of Columbia
HOK Devroux and Purnell
Horning Brothers
House of Ruth
Howard University
Leviticus 25/23 Fund
Meridian Public Charter School
Metropolitan Washington Airport Authority
Paul Public Charter School
TIAA-CREF

Photography by Harold J. Becton



For more information, visit
www.cityfirstbank.com

CITY FIRST BANK OF DC
1432 U Street, NW
Washington, DC 20009
(202) 243-7100 T
(202) 243-7197 F

