



Moving Forward

2007

CITY FIRST BANK
ANNUAL REPORT

A YEAR OF *Moving Forward*

Letter from the Chairman

We believe that City First Bank is well positioned for a time of growth and notable contribution to our community. It is especially important that City First is strong in the difficult economy that we face, and that we ensure that capital flow is not restricted in underserved markets. 2007 was a pivotal year for City First and the momentum we experienced has continued in 2008.

During this time we have assembled a tremendously talented staff at all levels – one which we believe compares favorably with any community bank staff. We have returned the bank to profitability, raised additional capital allowing us to increase our lending limits, enjoyed asset and deposit growth and continued our leadership in the New Markets Tax Credit arena by closing transactions that transform the organizations and neighborhoods in which they are located. We also welcomed three new board members who were elected in 2007 – Leonade Jones, Hassan Minor and Tom Kelley. We are fortunate that they joined us.

In recent weeks we have also announced the retirement of our CEO, Ed Furash. It is thanks to Ed and the staff that he has assembled, that City First has the human, operational and financial strength to be a positive force when others must retrench. Ed brought to City First more than 50 years of leadership in the banking industry. He did so out of the deep belief in the importance of contributing to one's own community. He did not have to do this. Ed, you have left an indelible mark on the



bank and the Board and the City First family thank you. In September, we will welcome Dorothy J. Bridges to City First and to Washington. She comes to City First from Minneapolis where for the past nine years she has been the CEO of Franklin National Bank. Dorothy has enjoyed a rich and diverse banking career – one reflecting a commitment to underserved communities and community development finance.

We are anxious to deepen our relationships with strategic partners and to improve our value to depositors and shareholders. As we close out 2007 and look toward 2008, we remain committed to serving disadvantaged communities through innovative financing and technical services from our office right here in Washington, DC.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chuck Muckenfuss'. The signature is stylized and includes a small flourish at the end.

Chuck Muckenfuss



Letter from the CEO

I am extremely proud of our accomplishments in my last year at the helm of City First. I invite you to consider the highlights of the year – a year marked by tightening credit standards, declining consumer confidence, considerable losses in the residential and commercial real estate sectors, and ballooning asset deterioration among banks.

On the strength of increased assets, a healthy loan portfolio and our continued progress in New Market Tax Credit, NMTC financing, the bank returned to profitability in 2007. Deposits increased by one third topping \$100 million for the first time in our history. It is a pleasure to share with you, some of our 2007 achievements.

- City First Bank increased its capital base through a \$1 million stock investment by PNC. That in turn raised our legal lending limit to \$3.1 million per borrower. The investment further strengthened our well-capitalized status.
- There were \$35.1 million in new community development loans originated. Our financing, 75% of which was originated in low to moderate income census tracts, resulted in the creation of 92 new jobs.
- City First raised and deployed investor capital of \$62 million for key community projects through our NMTC program. Our total NMTC investments in DC grew to \$104.8 million through 2007 and early 2008. We closed our largest transaction to date, \$21 million for the permanent financing of the E. L. Haynes Public Charter School on Georgia Avenue, NW.
- Commercial loans to small businesses totaled \$16 million. 100% of our customers were small companies with annual business revenues of less than \$1 million. Commercial loans to charter schools and other educational facilities totaled \$1.7 million. These loans provided vital bridge or operating capital for our customers to acquire or expand their educational facilities.
- City First works with the major non traditional community development lenders who rely upon concessionary investors to achieve their goals. In 2007, we made five below market loans totaling \$5.9 million to support the work of Enterprise, LISC, Cornerstone and Partners for the Common Good.

It has been my privilege to work with a supportive board and singularly qualified bankers. My time at City First has enabled me to achieve my personal mission – “Tikkun Olam” – working with you all to repair the world each day, making it a better place because of what we do. I know I can count on you to support the bank as it continues this effort. Thank you for this exciting opportunity to cap my more than 50 year career as a banker.

Warmest personal regards,

A handwritten signature in black ink that reads "Edward E. Furash". The signature is written in a cursive, slightly slanted style.

Edward E. Furash



2007 *Mission Driven Results*

Focus on Low Wealth Communities

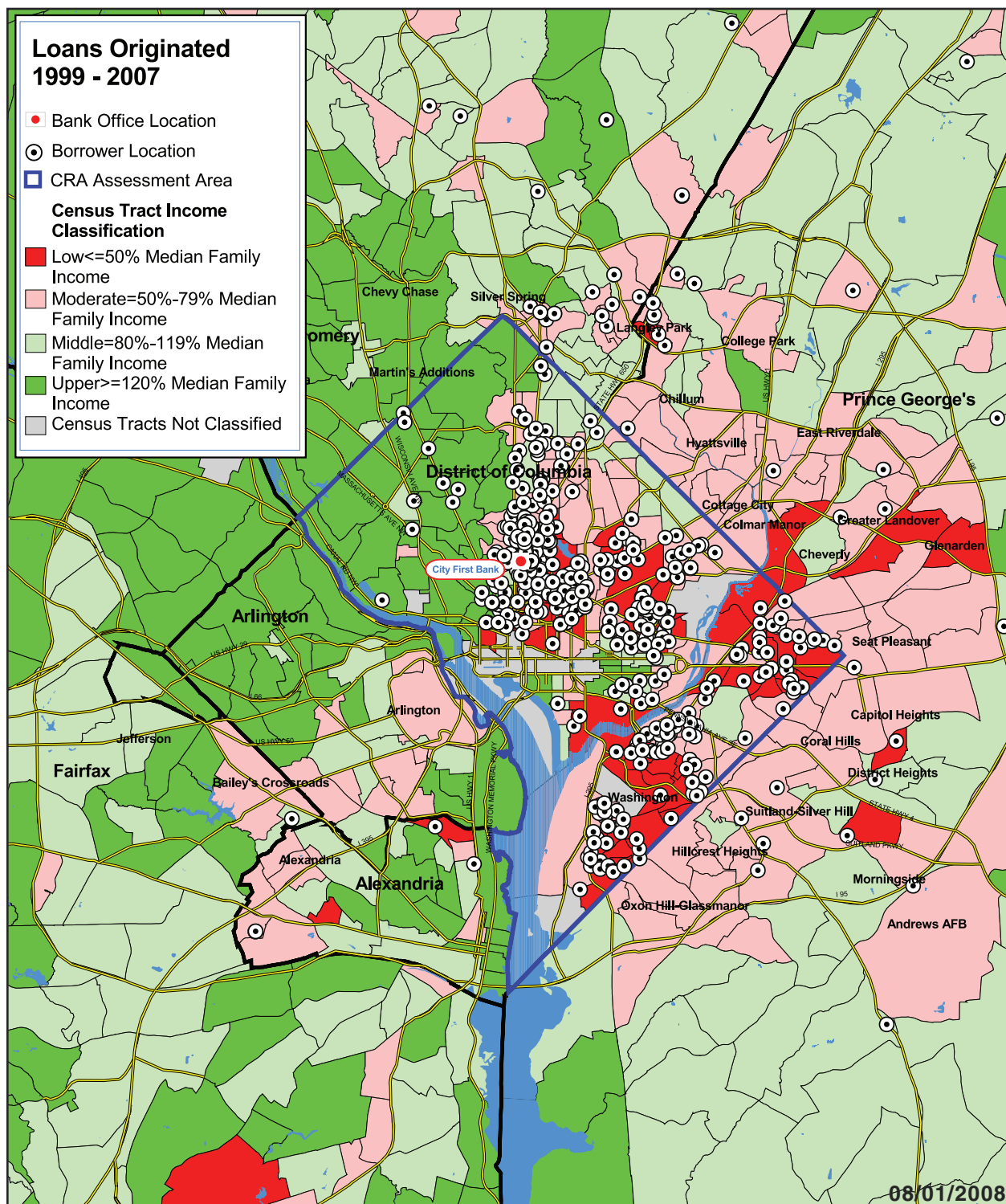
As a mission based community development bank, City First provides financing in the neighborhoods that need it most. Since our establishment in 1998, our loans have financed the acquisition and development of affordable housing; the expansion, modernization and development of community facilities and charter schools; and business operations, equipment purchase and leasehold improvements for nonprofit organizations, small businesses and startups. We focus on those organizations that serve low and moderate income communities in DC and the nearby suburbs, offering a wide range of banking products and services customized to meet the borrowing needs and capacity of our customers. We specialize in creative financing for businesses and organizations with projects that don't fit a conventional bank profile or that may require extra time and flexibility to obtain guarantees, credit enhancements, or rate and term concessions.

City First Bank is distinguished by the fact that we invest our deposits and other resources in low wealth communities. City First stakeholders see a double bottom line return - while our investors do well earning competitive rates on their deposits, we put those investments to work for people and organizations in low income communities to build neighborhood assets. As a mission driven financial institution, we leverage our status as a regulated commercial bank to achieve our community development goals and bring the best value to our customers. Innovative financing of tough community development deals is our specialty and we proved our leadership in this exciting and challenging market again in 2007. The map depicted on the opposite page illustrates our lending concentration in the lower income communities west of 16th Street, such as Columbia Heights, Marshall Heights, Congress Heights and Anacostia.

City First stakeholders saw a double bottom line return – competitive earnings on their deposits while supporting \$35 million in community development financing in 2007.

Targeting Underserved Markets

City First loans are concentrated in low to moderate income census tracts east of 16th Street and in Wards 7 and 8. We also lend in low income communities and for projects benefiting low income populations in suburban jurisdictions.





Affordable Housing Finance

Affordable housing is an integral part of a healthy neighborhood. Whether for sale or rent, housing finance is a primary line of business for City First Bank. To ensure affordability, we use various sources of credit enhancements and subsidies such as the District government Site Acquisition Financing Initiative, SAFI, and the Affordable Housing Program, AHP, of the Federal Home Loan Bank. We also participate with non traditional community development lenders. In 2007, City First made nearly \$11 million in affordable housing loans. The financing accounted for 201 housing units of which 199 were affordable for families earning up to 80% of the area median income. One of the most effective partnerships we employed last year was with Enterprise Community Partners.

Sankofa Cooperative

When the building was offered for sale by the owner, the families at the Sankofa Cooperative were facing displacement and the loss of their affordable housing. Affordable homes are especially difficult to come by in Columbia Heights – a neighborhood facing tremendous gentrification pressures. With a very short time frame in which to make a purchase offer and gain control of the building, the residents recruited Jubilee Housing, their long time building manager, to partner with them to form a tenants association and obtain a loan. Partial financing was provided by Enterprise Community Loan Fund. Enterprise contacted City First and we loaned \$2 million of the \$6 million bridge loan needed to purchase the building. Additional financing was provided through AHP. By purchasing their 48 unit building the residents preserved their homes. But more globally, Sankofa families stabilized the neighborhood by preventing displacement and helping to preserve the diverse resident base and rich cultural texture of Columbia Heights. Structured as a limited equity cooperative, Sankofa is affordable to families earning 30% - about 60% of the area median income.

City First housing loans totaled \$10.8 million, producing 199 affordable units in 2007.

Wheeler Terrace

In another affordable housing transaction, City First provided \$2 million in financing, as a part of a total financing package, for the acquisition of Wheeler Terrace, a 113 unit apartment building in the southeast neighborhood of Congress Heights in Ward 8. Like families of the Sankofa Cooperative, the Wheeler Terrace Apartments Tenants Association exercised its right to purchase their building to preserve members' homes. The property had originally been subsidized by project-based Section 8 financing which was set to expire in 2009, thus ending the affordability of the units. The tenant association retained the well regarded nonprofit Community Preservation and Development Corporation, or CPDC, to serve as their developer. Conversion and preservation of the property adds to the stability of the community which in recent years has seen considerable new development. Such development includes THEARC, a multi-purpose recreation and community service center, Southeast Tennis and Learning Center, retail development at the Shops at Park Village, new for-sale housing developments and the recently completed Wheeler Creek Estates HOPE IV project. Our financing of Wheeler Terrace is consistent with our focus on SE Washington. In recent years, City First has been actively engaged in the Congress Heights community having provided financing for THEARC and the retail center at the Shops at Park Village. Taken together, these projects have substantially upgraded the quality of life in Ward 8 and the Congress Heights community.

2007

Small Business Lending

City First is a commercial bank with a community development mission – we finance small companies, including startups, that provide goods and services in low to moderate income communities, and in particular, companies that generate jobs. Our loans are used to purchase equipment and inventory, finance leasehold improvements and to provide cash for ongoing operating needs of small businesses. We financed over \$16 million for small businesses last year. And we do mean small businesses – the average loan we originated last year was about \$700,000. From restaurants to building material companies to retailers, City First is the bank for small companies. We offer the customary array of loan and deposit products, but we distinguish ourselves by catering to small companies that are challenging to finance, including startups. By working with socially conscious investors and public agencies with a mission to expand access to capital in underserved markets, such as the Small Business Administration, some City First products include concessionary features and flexible underwriting. For example, when small companies lack a track record or have inadequate financial strength to qualify for financing based on performance, we rely upon partners such as the Cooperative Assistance Fund, CAF, to help bridge the gap.

As a socially responsible investor CAF uses its insured City First Bank deposit, for which it receives interest income, as credit enhancement to support financing requests from small businesses. The double bottom line return for CAF – interest income plus community benefit – meant the retention of 7 existing jobs and the creation of 28 new jobs.

In 2007, we helped to finance the only sit down restaurant in Ward 8, the International House of Pancakes on Alabama Avenue. The Jackson family, residents of Ward 8 won the right to develop the IHOP and of the many locations they could have selected, they chose a location right in the neighborhood at the newly developed Shops at Park Village. The IHOP provided about 40 short term construction jobs and is expected to generate up to 60 full time equivalent jobs. In another demonstration of its commitment to the Congress Heights community, the Jackson family targeted local residents for employment opportunities holding several job fairs at local churches and one at the Petey Green Center.



Owners and management of IHOP





Shadi
James

But you are a chosen people,
a royal priesthood, a holy nation,
a people belonging to God,
that you may declare the praises
of him who called you out of
darkness into his wonderful light.

1 Peter 2:9

2007 *Faith Based & Nonprofits*

In low income communities, churches and church related social service agencies play a very large role in stabilizing and developing their neighborhoods. City First is there whether the financing is for an improvement in sacred space, fitting out office space for programs, creating space for classrooms, or developing housing for elderly parishioners.

Last year, Little Lights Urban Ministry sought a loan from City First to purchase and renovate a building where their volunteers could live. Little Lights works in the Potomac Gardens community of SE Washington. Since 1997, the organization has offered volunteer tutoring, homework help, a children's choir, Bible study, a teen group, trips to ball games and other activities, and summer camp for families in the neighborhood.

Little Lights – which counts the DC Youth Investment Trust and the Capitol Hill Community Foundation among its donors – takes a “relational approach,” with staff members spending time inside Potomac Gardens, getting to know residents of all ages but working especially with young people from five to eighteen years old. According to residents of Capital Hill, Little Lights is an effective bridge between the Potomac Gardens and the larger community, helping to improve the quality of life for them all.

Another community based social service provider we worked with was the Community Partnership for the Prevention of Homelessness. Last year City First helped the Partnership in a very fundamental way by providing a line of credit for operations, ensuring continuity of service to their homeless and vulnerable clients. One of the most frequent needs of nonprofits, especially those who offer enhanced services to individuals, is the need to cover cash flow and to finance payroll and other operating costs between the time when contracts are awarded and funds are received. The City First revolving line of credit provided the Community Partnership with funds to cover rental and care payments for people in special needs housing units.



Sue Marshall, Executive Director, Community Partnership for the Prevention of Homelessness

\$8.3 million was loaned in 2007 to community based social and educational service providers.



2007 *NMTC Program*

City First is an innovator in community development finance and is a pioneer in the New Market Tax Credit program, or NMTC. Our NMTC investments in Washington reached \$104.8 million in 2007. The NMTC program allows us to finance major projects in highly distressed communities in DC and nearby jurisdictions. Using NMTC, City First can vastly exceed its usual lending limits, making loans from \$4 million to \$21 million. Our NMTC program induces private investment in targeted community development projects through a tax credit incentive. The investments provide equity to qualified deals and the equity is blended with debt financing to allow favorable terms and pricing for commercial projects that catalyze further private development.

In 2007, we provided \$21 million in NMTC authority for 30 year, fixed rate and below market financing for the E. L. Haynes Public Charter School. Partners in the transaction included Nationwide Mutual Insurance Company and Boston Community Capital. Located in DC at 3600 Georgia Avenue in the Petworth community, E. L. Haynes is a premier charter school serving children from kindergarten to Grade 8. At the core of the school is the belief that every student, regardless of race, socioeconomic status or home language is capable of reaching high levels of academic achievement. The financing will save the school nearly \$1 million per year, funds that will be used for academic programming. The 46,000 square foot school contains a gymnasium, cafeteria, dedicated art, science and special education instruction space in addition to classrooms. The current student enrollment of 308 students is expected to grow to 650 students through 12th grade within the next five years.

In another deal, City First provided \$14 million in NMTC financing to Humanim, a major Maryland statewide social service provider, to purchase and renovate a 121 year old brewery in east Baltimore, the former American Brewery. As typical in most NMTC deals, the multi-layered financing included grants from government and charitable sources, historic tax credit equity combined with new market tax credit equity, and a committed and determined borrower. Bank of America, the National Trust and the City of Baltimore were partners in this transaction. Humanim provides a range of social services to disadvantaged and disabled individuals and their families throughout Maryland, including the DC suburbs of Prince George's and Montgomery Counties. Most of its staff of 250 will be centralized from multiple locations to the American Brewery building, helping to create economic impact in a highly distressed neighborhood. In addition, it is anticipated that this project will create 60 new jobs and allow Humanim to serve 850 children and adults each year. The rehabilitation of this building is a cornerstone of a \$1.8 billion plan to redevelop the east Baltimore community.



CFBANC Corporation & Subsidiaries

COMPARATIVE CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND OTHER KEY DATA

	Years ended December 31,	
	2007	2006
INCOME STATEMENT DATA:		
<i>(\$ in thousands, except per share data)</i>		
Interest income	\$ 8,368	\$ 7,909
Interest expense	3,593	2,826
Net interest income	4,775	5,083
Provision for credit losses	-	735
Net interest income after provision for credit losses	4,775	4,348
Noninterest income	2,353	1,504
Noninterest expense	6,477	6,443
Income (loss) before income taxes	651	(591)
Income taxes benefit (expense)	(272)	226
Net income (loss)	\$ 379	\$ (365)
COMMON SHARE DATA:		
Net income	\$ 0.21	\$ (0.22)
Book value	9.85	9.54
Common stock outstanding at end of period	1,896,113	1,796,113
Weighted average Common shares outstanding during period	1,805,428	1,636,662
BANK PERFORMANCE DATA:		
Return on average total assets	0.30%	-0.31%
Return on average total equity	2.18%	-2.38%
Net interest margin	4.01%	4.55%
Loans to deposits	75%	84%
BANK CAPITAL RATIOS:		
Tier 1 risk-based capital	17.02%	17.14%
Total risk-based capital	18.29%	18.39%
Tier 1 leverage	14.48%	13.25%

CFBANC Corporation & Subsidiaries

COMPARATIVE CONSOLIDATED BALANCE SHEETS

	<u>Years ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
BALANCE SHEET DATA:		
<i>(\$ in thousands)</i>		
Assets:		
Cash & due from banks	\$ 13,431	\$ 3,834
Short term Investments	19,605	7,646
Investment Securities	25,382	22,608
Loans, net	82,189	68,659
Other Assets	9,462	9,034
Total Assets	\$ 150,069	\$ 111,781
Liabilities:		
Deposits:		
Noninterest bearing demand	\$ 14,268	\$ 16,100
NOW	8,182	6,670
Money Market & Savings	26,840	18,424
Time, \$100,000 or more	14,409	13,927
Other time	48,951	29,671
Total Deposits	112,650	84,792
Borrowings	16,625	8,406
Other Liabilities	2,118	1,450
Total Liabilities	131,393	94,648
Stockholder's Equity	18,676	17,133
Total Liabilities & Stockholder's Equity	\$ 150,069	\$ 111,781

LOAN PORTFOLIO COMPOSITION

	<u>At December 31,</u>	
	<u>2007</u>	<u>2006</u>
<i>(In thousands)</i>		
Commercial	\$ 16,585	\$ 11,796
Real Estate:		
Commercial mortgage	51,884	47,109
Construction and land development	16,952	12,829
Installment loans to individuals	38	112
Total Gross Loans	85,459	71,846
Less: net deferred loan fees	(468)	(431)
Total Loans, net of deferred fees	84,991	71,415
Less: Allowance for credit losses	(2,802)	(2,756)
Loans, net	\$ 82,189	\$ 68,659

Certain amounts for 2006 have been reclassified to conform to the current year presentation.

2007 Baptist Award

Created in 2000 to honor the legacy of our founding President and CEO, Debbi Hurd Baptist, the Baptist Award is presented annually to City First customers who exemplify her commitment to service and the community development industry. This year we are proud to celebrate the work of the Cooperative Assistance Fund, Edward E. Furash and Sue Marshall.



Debbi Hurd Baptist
1949—2000

The Cooperative Assistance Fund (CAF) was founded in 1968 and for the past 15 years has focused its community development work on the District of Columbia. Initial capitalization for CAF came from socially responsible investors and foundations seeking creative ways to promote job development and economic parity in low wealth communities. The mission of CAF is to provide debt and equity capital for “under financed businesses which serve important social values related to equal opportunity.” Since its establishment, CAF has directly invested more than \$7 million and leveraged an additional \$56 million provided by other investors in small companies that provide jobs in low income communities. In 2001 CAF entered its partnership with City First Bank through the development of the Cash Collateral Loan Program. Using cash to offset weaknesses in credit applications, CAF leveraged its \$160,000 deposit, at a ratio of 6:1, to enhance nearly \$1 million in financing in 2007. The financing supported 5 companies which together, accounted for the creation of 63 new jobs.

Edward E. Furash is retiring from his position as President and Chief Executive Officer of CFBanc Corporation and City First Bank of DC. He assumed the role in December 2005, having been a Director since 2003. Ed brought his 50 years of banking and regulatory experience to City First. During his tenure, he brought in a highly experienced executive management team, helped to increase the profitability of the bank and significantly enhanced systems and processes. An indefatigable leader, Ed hopes this retirement will stick. The Baptist Award acknowledges his long commitment to the banking industry and to City First Bank.

Sue Marshall is the founding Executive Director for the Community Partnership for the Prevention of homelessness. The Community Partnership is an independent nonprofit corporation that operates as a centralized resource for organizations serving the homeless population of the District of Columbia. Its mission is to utilize community resources to create innovative strategies that prevent homelessness. As the leader of the organization that will celebrate its 20th anniversary in 2009, Sue has overseen the growth and expansion of the organization from being the organization’s sole employee to now having a staff of 25 and an annual budget of \$45 million. Sue has an extensive history of public service, including eight years as the Vice Chair of the District of Columbia Housing Finance Agency. She has also served as Chief of Staff of the DC Department of Human Services, Mayor’s Homeless Coordinator, Staff Economist to the DC Council Committee on Finance and Revenue, Urban Policy Analyst for the Department of Housing and Urban Development and the Urban Institute. City First applauds Sue’s commitment to public service and the welfare of some of the poorest of our citizens.

Previous Baptist Awardees

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.

Gymnasium at E. L. Haynes Public Charter School



CITY FIRST BANK *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

Edward E. Furash, 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

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

**Effective September 2, 2008*



Incoming President and CEO, Dorothy J. Bridges

Executive Officers

Edward E. Furash, President and CEO

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

Advisory Board

Marshall E. Purnell, Principal, Devroux & Purnell

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

William L. Robertson, Consultant

Andrew Tomback, Partner, Milbank Tweed Hadley

NMTC Advisory Board

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
Bank of America
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
Countrywide Bank
Fannie Mae
Ferris Baker Watts
Georgetown University
J.P. Morgan Chase Community Development Corporation
M & T Bank
National Community Investment Fund
PNC
SunTrust Bank, NA
SunTrust Community Development Corporation
Wachovia Affordable Housing Community Development Corporation
Wachovia Bank

Major Depositors

Annie E. Casey Foundation
Association of Small Foundations
Centronia
Charter School Development Corporation
Community Foundation of the National Capital Region
Community Partnership for the Prevention of Homelessness
Cooperative Assistance Fund
Cornerstone
DC Public Charter School Board
East River Park
Enterprise Community Loan Fund
Government of the District of Columbia
Heron Foundation
HOK/Devroux & Purnell
Horning Brothers
House of Ruth
Howard University
Leviticus 25/23 Alternative Fund, Inc.
Meridian Public Charter School
NCB
Teaching for Change
Thurgood Marshall Public Charter School
Two Rivers Public Charter School
William C. Smith & Co.



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



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