

## **From the Chairman and President**

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Dear Shareholder:

A lot was accomplished in 2018. A vitally important upgrade to data system capabilities was implemented. Loan growth exceeded expectations. Small business lending steadily expanded. And we increased the talent and experience level in our accounting operations.

Financial technology, or “fintech”, is forcing digital transformation onto the agenda of every community bank in the country. Whether the goal is efficiency, growth, security, profitability, or a mixture of all, banks have recognized that leveraging technology is the only way to meet the rapidly evolving demands of consumers and businesses. The main dilemma is knowing where and how to focus limited resources in a rapidly changing environment. Finding the best path forward is critical.

Nobody agrees to endure complex surgery without the promise of compensating benefits. The risk of complications and errors, the disruption to normal life, the cost in time, money and productivity all demand the expected results outweigh the known and unknown hardships. Our decision to implement a system-wide overhaul was very similar. It was clear to us that a change from the old outdated system was an operational necessity. The former system had fatal shortcomings that limited our ability to offer competitive products and services.

Due to our limited staff size, the recently completed system-wide conversion was an especially formidable task. Every single employee answered the call. Long hours, intense training schedules, difficult detailed planning, and months of meetings were required to meet deadlines and successfully complete implementation; all while continuing to service customers, respond to regulators, auditors, consultants and other business partners. Completing a critical systems overhaul while maintaining normal operations has been compared to performing heart-transplant surgery while the patient is jogging.

I am extremely pleased to report the patient survived! In fact, we believe its life expectancy has been significantly improved. As I mentioned in my letter to you last year, the upgrade in technology is essential to the Bank’s ability to remain competitive. By utilizing the latest advances in banking technology, clients will have the ability to control self-service transactions with greater speed, ease, and security than ever before. New digital tools will allow customers to resolve more issues themselves. Despite strain on staff, resources, and earnings, this system change is a watershed event that we believe will be a foundational strength for the Bank for years to come. This fintech upgrade will allow us to affordably compete product by product with much larger companies as technology continues to shape our industry long into the future.

We continue to gain familiarity with all aspects of the new system. An incredible help in that process has been the addition of Betty Rush as the Bank's Controller. Betty has over 30 years of banking experience. She most recently held the position of Chief Financial Officer at Bloombank, in Bloomfield, Indiana. Betty came to Our Community Bank with extensive hands-on experience using the same operating system we recently installed. Her system knowledge has benefited every bank department. We are very grateful to have Betty as a member of Team OCB.

For the fiscal year, net income decreased to \$159,000, from \$336,000 in 2017. Direct and indirect costs associated with the systems conversion reduced earnings for the year. A number of non-recurring expenses and charges led to higher overall non-interest expense. Excluding the impact of one-time conversion-related charges and other non-recurring expenses, net income for the year would have been \$346,000.

We are encouraged by the quality growth achieved in 2018. Total assets increased \$3.6 million or 5%, to \$73.3 Million. Net growth in the loan portfolio since June 30, 2017, totaled \$4.7 million, or 10%. Activity within nearly all loan types saw increases.

Equally important, the quality of loans added to the portfolio continued to improve. For loans originated in 2018, the average loan-to-value was 70% and the credit scores for these borrowers averaged 738. Net loan losses decreased to \$36,000, compared to \$66,000 for fiscal 2017. In addition, repossessed property held at year-end totaled \$53,000, the lowest level in more than a decade.

Significant accomplishments were achieved in the broader banking industry as well. Earlier this year, President Trump signed into law S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act. This new law may be the most significant revision of banking rules since the disastrous Dodd-Frank financial regulatory law passed by Congress in response to the 2008 economic crisis. This achievement is the result of efforts over several years to create banking rules and regulations consistent with the size, risk, complexity, and business model of community banks.

This is the kind of regulatory relief that is necessary to allow small banks to remain competitive, viable and able to serve the needs of our communities. These reforms help reduce some of the unnecessary burdens on smaller financial institutions created by Dodd-Frank. As far as Our Community Bank is concerned, the following are a few significant provisions of S. 2155:

- Designates mortgages held in portfolio as "Qualified Mortgages", giving us the ability to provide more borrowers access to mortgages, without the burden of unknown future legal risk.
- Provides relief from appraisal requirements in rural areas, if there is a shortage of appraisers available.

- Provides relief from Home Mortgage Disclosure Act (HMDA) data collection over-kill required by new Dodd-Frank HMDA data fields.
- Eliminates TRID required three-day waiting period when we extend a second offer of credit with a lower interest rate to a borrower.
- Simplifies capital calculations for community banks.
- Requires banking agencies to create a short-form Call Report for community banks to file twice annually.

How and when many of these reforms become effective is still yet to be determined. Some of the provisions of S. 2155 explicitly require agency rulemaking before they go into effect. Other provisions are technically effective immediately, but agencies must complete a review to ensure their existing regulations conform to the new law. Hopefully all parties involved will expedite rulemaking and other necessary guidance so that the benefits from this important regulatory relief can be realized as soon as possible.

We have been very fortunate to have Brian Stremming work with us as our outsourced Chief Financial Officer for slightly over a year now. Brian has applied his considerable talents and experience to achieve greater efficiency within our accounting operations and other bank functions. He has quickly become a critical member of our management team. Included in his many roles at the bank, Brian is leading efforts to fully realize potential benefits of our new operating system. Brian has been a tremendous help to us during a period of extensive disruption for our operations.

Effective February 1, 2018, the Company reported a change in its Board leadership. Chairman Tad Wilson and Vice Chairman Stephen Parrish informed the Company's Board of Directors at its regularly scheduled January 23, 2018 board meeting of their intent to continue serving on the Board of Directors, while stepping down from their respective leadership roles on the board. The Board of Directors has unanimously voted me to succeed Tad as Chairman of the Board, and Charles Hardesty as Vice Chairman of the Board.

I would like to thank all of our Directors for their confidence in Charlie and I to serve in these board leadership roles. I have tremendous respect and appreciation for the many years of service both Tad and Steve have dedicated to our Company. I am particularly grateful for their willingness to continue their service as members of the Board of Directors. Their wisdom, guidance and unwavering support continue to be an extraordinary benefit to me and this Company. Thanks also to our customers, employees and shareholders, for continued support of Home Financial Bancorp and Our Community Bank.

Kurt D. Rosenberger

*Chairman, President and Chief Executive Officer*