

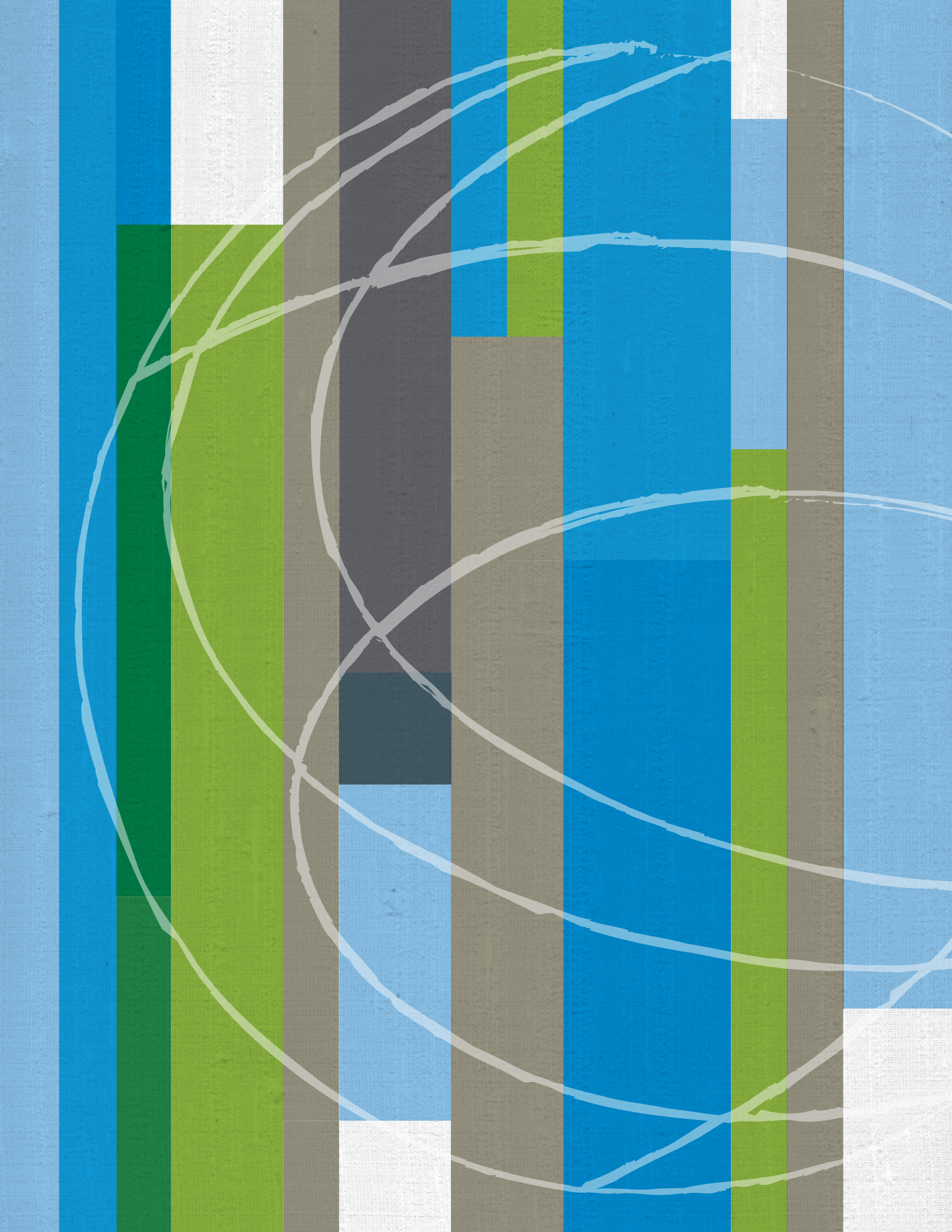


ANNUAL REPORT

2013



Powering business and communities. Growing with intention.SM





Centric Financial Corporation

2013 Annual Report

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To Our Shareholders, Customers, and Friends:

At Centric Bank, our post-recession story is *Powering business and communities. Growing with intention.*SM 2013 will be remembered as the year business began to recover from the recovery. In perhaps the longest economic restoration chapter in recent decades, the housing market and the commercial real estate market are beginning to capture lending attention. When business and community grow healthy together, it's an economic game changer. And we're honored to be a valuable participant in both.



Donald E. Enders, Jr.
Chairman of the Board

In central Pennsylvania, Centric Bank continued to answer opportunity with cash and capital. We know the narratives behind the numbers: the passion of the woman business owner who celebrated 15 years in retail; the reputation of the restaurateur whose local fare earns rave reviews; and the excavating firm who's moving dirt to pave the way for business building.



Patricia A. Husic
President & CEO

The dynamic of these client relationships is our competitive advantage. *We Revolve Around You*—four words that quietly envelop each conversation. Those words are even more important today than they were when we founded the bank in 2007.

Small business builders, doctors, landscapers, developers, and entrepreneurs depended on us to strengthen bottomlines—and we delivered. There were \$66.2 million in new loans in 2013 representing 16.4% organic loan growth.

Few conversations are more pervasive today than health care and how employers and states will afford it. To meet the private banking needs

of our medical and health care professionals, Doctor Centric Bank allows these individuals to focus on helping and healing others. That's a community advantage.

As a leader in SBA lending for central Pennsylvania, we originated 13 loans totaling \$3.7 million and corresponding gains on sales of these assets amounting to \$245,165 for the year. Net income for 2013 was \$435,746, as compared to the previous year end at \$707,532; a decrease of \$271,786 or 38.4%. During the year, we made a positive impact in fee income for both SBA loans and the mortgage division. Mortgage originations also contributed \$125,000 to fee income from selling these loans to the secondary market.

We made significant improvement in the loan-to-deposit ratio in 2013, increasing to 85.9% at the end of 2013 as compared to 76.7% for the prior year end. This was due to an increase in loan originations in the last half of 2013, as well as a reduction of non-core depositors.

Also, high-cost deposits were navigated into lower-cost products as well as some maturing CDs repriced at lower yields. We also transitioned some non-core deposits to a planned exit from the financial institution. For the year, our cost of funds was reduced from 1.19% to .86% at December 31, 2013, or an interest expense reduction of .33%. Due to compression of interest rates and competitor pressure in our markets, loan yields were reduced from 5.41% to 5.09% at year end. The overall result increased the net interest margin from 3.15% to 3.21% for the year.

We continue to focus on risk management and our asset quality. The bank has navigated through the legal process from collections to bankruptcy and finally, disposition of these assets. The navigation of the legal and collection process had a direct result of increased collection, legal, and carrying costs for 2013. Non-recurring expenses related to the collection and disposition of these assets for the non-performing credit facilities and Other Real Estate Owned exceeded \$500,000 for the year.

At the end of 2013, our delinquency ratio for loans 30-89 days decreased from 2.78% to .93%; and favorably compared to the Pennsylvania average of 1.26% and the national average at 2.62%. Total delinquencies at year end 2013 amounted to \$625,385 versus \$1,794,272 for the 2012 year end. Total charged-off loans in 2013 amounted to \$1,564,032, and related replenishment to the provision for total loan losses amounted to \$1,354,329.

Further indications of our diligent collection and risk management efforts are the decline of our past-due loans greater than 90 days and non-performing loans, totaling \$1,524,508 in 2013 as compared to \$4,037,934 for the same time period in 2012.

On May 1, we opened our fourth financial center in Derry Township at 1201 West Governor Road. This financial center was embraced by the community, and we ended the year with total loans and deposits at this location at \$36.4 million and \$39.6 million respectively. We recognize that on a short-term basis a new location increases the bank's overall expenses until the break-even/profitability point is attained. The average time period for a new office to reach profitability is generally 36 months. We are on track to meet profitability, at that location, well before that timeframe. During 2013, the Derry Township location had increased costs of \$207,000 related to personnel and occupancy costs. In the long term, these investments will add to our revenue and increase the franchise value of Centric Financial.

We were honored to be recognized by the *Central Penn Business Journal* as one of the Top 50 Fastest Growing Companies. Centric Bank ranked as the #2 fastest-growing bank in central Pennsylvania.

Adding a human resources manager and an expanded loan division, our workforce grew to 60, an increase of 11%. 2013 also saw the release of a Centric Bank mobile app and an even stronger presence on social media—connecting and engaging customers on channels they choose. In 2013, we donated to many organizations, non-profits, foundations, and community service groups. Equally valuable, the Centric Bank family contributed hundreds of service hours supporting

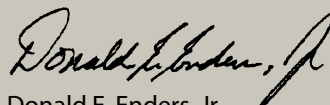
these and many other fine organizations:

- Penn State Hershey Medical Center and Farmers Market
- Willow Mill Fall Festival
- Toys for Tots Parade and Collection
- The Lion Foundation
- American Heart Association
- The Salvation Army
- Harrisburg Chamber and CREDC
- Night Out for Public Safety
- Big Brothers Big Sisters of the Capital Region
- United Way

As leaders of this institution, we are brand ambassadors and *Directors of First Impressions*. Whether introducing our services to a team at Penn State Hershey Medical Center or providing capital for entrepreneurs in the hospitality industry, **we are bold in our ask to be your banking partner**. In the trenches of the community banking mission field, we have seen over and over how one small business success can influence a neighborhood for good.

We are most grateful to our shareholders—the backbone of our institution. Many of you invested in us seven years ago and have journeyed with us to break new ground. We look forward to our next season of “revolutionary” banking services. As we grow with intention, *We Revolve Around You*.

Sincerely,



Donald E. Enders, Jr.
Chairman of the Board



Patricia A. Husic
President & CEO



“The best way to predict your future is to create it.”

—PETER DRUCKER, the father of modern business enterprise

Investing in Game Changers

Because we truly believe Drucker’s words, our passion and mission at Centric Bank is to invest in game changers—the men and women who power our regional economy. Ushering in a true recovery, they bring big ideas, unbridled passion, and an intense will to succeed. And they have found a home with Centric Bank.

When these entrepreneurs are ready to launch a business, they know what a critical step it is to choose a local lending partner. In a world of kickstarter campaigns and bitcoin, ***the most trusted and secure path to funding and growth is still the path that we provide***—a personal relationship with a bank who believes in them.

Growing healthy communities requires a commitment to support our region’s biggest asset: small business. We are partners in growth and remove one of the highest barriers to small business success—access to financing. We shorten the learning curves to financial independence.

In 2013, we added \$66.2 million to the small business pipeline, an increase of 16.4%. We have loaned \$230.16 million to help people achieve their dreams, build a business, or buy a home.

We have found that the best way to predict the Harrisburg capital region’s bright future is to be a part of its emerging growth.



A Year of Intention, Opportunity, and Optimism

Intention: Choosing Your Foundation for Business

Every business needs tools to help it grow, attract customers, manage resources, and reinvest in the community. Thanks to our shareholders and expanding customer base, Centric Bank is one of central Pennsylvania's most powerful business resources.

Choosing your banking partner is an important lifetime decision. And we're honored by the hundreds of business owners, executives, physicians, restaurateurs, and hoteliers who have intentionally partnered with us. We pride ourselves on relationship-banking principles, because success isn't just about the numbers or the volume of transactions. We are honored every time we hear that our loan or line of credit was the tipping point to business success for a customer. In 2013, we made 13 SBA loans for a total of \$3.7 million.



Photo: Vince Cassaro

"A small business needs a bank that is timely, interested, and personal. For us, Centric Bank fills the bill. Our former bank's decision makers were located miles away in a large city; they seemed detached and disinterested.

"When we transitioned to Centric Bank, they worked hard to structure our financing and services to meet our needs. The Camp Hill branch is convenient to our businesses, and the staff has been very friendly, responsive, and accommodating."

David and Sandra Cordier
Cordier Auctions & Appraisals

Our track record of investing in people compels us to put a face with the numbers. ***It's an evolving story of free enterprise and market forces—a push-pull of risk and glory.*** We measure the risk and celebrate in the victories. Through home mortgages, commercial real estate loans, SBA loans, lines of credit, and digital banking services, we make sure our region retains its competitive advantage.

We have established 94 new lending relationships that totaled \$32.3 million. Our lending team helps the landscapers, the medical practices, the attorneys, the architects, the engineers, and the excavators reach financial independence and success. Our business checking accounts—certainly a fundamental tool—remain robust, and our business lending, a growth barometer, increased 10.4%.

Each of these banking services begins with a conversation between business owner and Centric Banker. The handshake, the small talk, the community connection, the earnest attention to whole-business lending—all help strengthen our communities.



As we prepare to celebrate our seventh year, Centric Bank's early beginnings are still fresh in our minds. We understand the vision and mission of your "big idea" because we are living ours too. And we're eager to help you make it a reality.

Whether connecting with one of our retail bankers, a mortgage lending officer, a financial center teller, or our CEO Patti Husic, our customers say they appreciate the feeling of security and opportunity they sense with every touch point.

Opportunity: Immersed in Community and Connections

As a locally owned bank, we are driven by what's good for our customers. We never lose sight of the men and women who have helped build our bank. And, as purposeful and good stewards of all your resources, we understand the value of the money you earn and entrust to our institution.

An overarching goal, beyond delivering a solid return to our shareholders and high quality service to our customers, is to make a difference in our neighborhoods. Before we were shovel-ready at our Hershey and Camp Hill financial centers, we began sharing sponsorships, donations, and goodwill with the residents and business owners.

We reached out to Penn State Hershey Medical Center to introduce ourselves and learn more about the Hershey Farmers Market directly across the road from our Derry Township financial center. "Can we help you build a stronger community?" we asked, believing that a strong region is as dependent on financial well-being as it is on physical well-being.

When a business moves its accounts to Centric Bank, it's often because of a referral and a compelling story they heard from a customer. Although people may not change financial institutions because Centric Bank sponsored the Camp Hill Borough Toys for Tots Parade, or because Executive Vice President and Chief Lending Officer Jeff Myers was awarded "Father of the Year" by the American Diabetes Association, these events add tremendous soul to our brand.

"I wanted to take a moment to thank you and your staff for making our transition to Centric Bank a wonderful experience. From the very beginning, you took the time to understand our needs and company goals which demonstrated the commitment of Centric Bank to the success of small business.

"Centric Bank has proven itself to be a bank with small town values and ethics, where people still have access to top management while offering all the amenities and services of the big banks. Thank you for listening to our needs and taking the time to know our company."

John W. Gleim, Jr.

John W. Gleim, Jr. Inc. Excavating



Giving back is much more than a budget line item for us. We know that offering time and money to organizations like The Salvation Army Harrisburg Capital Region, the Leukemia and Lymphoma Foundation, the American Heart Association, the YWCA, the Lion Foundation, United Way, and the Penn State Hershey Medical Center strengthens our people, families, and workforce.

We hope to connect with all our customers—at your convenience. 2013 was a positive and pivotal year for our digital tattoo. As part of our marketing strategy, we are building a network on Twitter, Facebook, and LinkedIn to keep our customers informed about banking initiatives, community news, and financial resources. These are powerful opportunities to tell our story, and we're continually digitizing our services to make every banking experience a pleasant one.



"As the owner of four busy central Pennsylvania restaurants—Rock Bass Grill, Dockside Willies, Dukes Riverside, and Dukes Hershey—I need a bank who makes doing business easy. I trust Centric Bank's expert team to look out for my best interests. They are locally owned, they know me personally, and they appreciate me: a rare combination these days. The people who represent the bank, like my lender Don Bonafede, CEO Patti Husic, and the folks working behind the scenes, give me confidence and comfort. Centric Bank knows that little things mean a lot—a friendly smile, a firm handshake, even a great pen—and they all go a long way in saying 'I care.'"

Don Carter

Rock Bass Grill, Dockside Willies, Dukes Riverside, and Dukes Hershey

The Centric Bank mobile app was revealed this year to a grateful customer base. Using the latest digital tools and platforms, we make sure that our Millennials can make mobile deposits at 2 a.m. if they choose, and that second careerists or retirees can stop into any of our financial centers for a chat about deposits, free checking, or new banking services. In every transaction, communication, and bank statement, we reinforce the many ways to seamlessly manage your accounts and to reach us. **Your convenience, your accounts, your choice of connection.**



Although smartphones have added a new dimension to banking services, Google searches for "bricks and mortar" bank branches are surging, up roughly 200% according to The Financial Brand. On May 1, 2013, Centric opened its fourth financial center at the gateway to the heart of Hershey with an official "Centric Bank Comes to Town Day." More than 50 business and banking leaders, as well as public officials and customers celebrated our expansion.



Optimism: Centric Bank Is Your Competitive Advantage

What's the value of confidence and optimism? We believe it's priceless.

"Understanding who you serve and striking the delicate balance of appropriate risk with common sense is the responsibility of a community bank. It's what distinguishes us from the complexity of global banking services. Our reality on Main Street is that we personally know and believe in our business builders. We believe in a strong Pennsylvania workforce and attract a core client base of small business USA. Our message to you, the men and women who own 28 million small businesses, is we're Powered Up to serve you. We're built to advance your business goals; and we believe you're a very good investment," says Patti Husic, Centric Bank CEO.

"My experience with Centric Bank has far surpassed all my previous institutions. The future looks much brighter thanks to Centric Bank."

Steven A. Witkowski, DDS



"We want to thank you for a job well done. Our Centric Bank refinancing was extremely smooth, and your team was extremely helpful. We look forward to a long, beneficial business relationship with Centric Bank."

Pinakin & Sangeeta Merchant

Urmi Sons and Associates, Super 8 Motel

"The service and response time that we receive from Paul Zwally and the staff and board of directors at Centric Bank is remarkably refreshing. At other banks, in our experience, once the loan is processed and the payments begin, the personalized service seems to end. At Centric, we are treated like lifelong customers and friends. The tellers, loan officers, and branch managers all know our names and treat us like we're important. We cannot thank everyone enough for their honesty, courtesy, and professionalism."

Tom & Josi George

Builder/Developer/Realtor



“Every day Centric Bank demonstrates its commitment to the success of One Good Woman. The Centric team is professional and very helpful—a winning combination in bankers. Centric Bank products are first rate with services like credit card processing, gift card redemption, and more.

“While a lot of banks talk about small business, Centric actively and aggressively supports us. Count me as one committed customer of Centric Bank!”

Holly O’Connor
One Good Woman



Doctor Centric Bank

In the second year of service, Doctor Centric Bank originated \$8.66 million in new loans. As quality health care delivery becomes increasingly complicated, Doctor Centric Bank continues to provide financial solutions to health care professionals and practices. When the timing is right to purchase a commercial building, hire a new practitioner, upgrade IT infrastructure, or buy new medical equipment, we provide the resources and a seamless concierge banking experience.

“Before I found Centric Bank, I was frustrated and found other banks to be inflexible and rigid. The Doctor Centric Bank private banking service has enabled me to rearrange my finances in several ways that not only make more sense but will save me considerable money over time.”

David Kann, MD
Chairman, Department of Medicine and Director of
Cardiology Services, Carlisle Hospital



Doctor Centric Bank also offers specialized financing opportunities that many institutions are unable to meet, such as up to 100% practice financing for buy-ins or buy-outs and equipment. In addition, we offer the support of government guarantee and were recently named one of the largest SBA lenders by the *Central Penn Business Journal*.

Powering business and communities is our mandate and growing with intention is our strategy as we continue to open new opportunities for every segment of our hard-working neighborhoods.



Narratives, Numbers, and New Ground

#1

The Customer remains at the core of our relationship banking principle. You are #1!

60

Total number of employees, an increase of 11 percent.

189

Centric Bank mobile app users.

\$8.66 Million

Loans originated for Doctor Centric Bank private banking clients.

16.4%

Increase in loan originations.

21

Doctor Centric Bank loans.

\$66.2 Million

New loans originated in 2013.

13

SBA loans proffered to small business clients.

100s

Service hours invested in organizations to enrich the communities we serve.

49

Medical practice clients.

4

Financial Centers to serve customers in central Pennsylvania.

Top 50

Top 50 Fastest Growing Companies recognized by the *Central Penn Business Journal*.

Top 25

Patti Husic, President & CEO, is recognized by *American Banker* as one of 25 Women to Watch in Banking in the United States.

1201

1201 West Governor Road directly across from the Penn State Hershey Medical Center was the 4th financial center to open.

3

Jeffrey Myers, EVP/CLO, is one of three men recognized as "Father of the Year" by the American Diabetes Association.



INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF DIRECTORS
CENTRIC FINANCIAL CORPORATION
HARRISBURG, PENNSYLVANIA**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Centric Financial Corporation and subsidiary which comprise the consolidated balance sheet as of December 31, 2013 and 2012; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Centric Financial Corporation and subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.
Wexford, Pennsylvania
March 17, 2014



CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

	December 31,	
	2013	2012
ASSETS		
Cash and due from banks	\$ 3,264	\$ 2,813
Interest-bearing deposits in other banks	537	2,795
Federal funds sold	15,421	40,285
Cash and cash equivalents	19,222	45,893
Investments in certificates of deposits	5,995	9,831
Securities available for sale	34,924	26,661
Securities held to maturity, fair value of \$798 and \$951	798	929
Loans	230,162	208,509
Less: allowance for loan losses	2,708	2,918
Net loans	227,454	205,591
Loans held for sale	-	1,059
Accrued interest receivable	598	597
Premises and equipment, net	7,474	6,362
Regulatory stock	1,081	1,060
Cash surrender value life insurance	2,941	1,387
Goodwill	492	492
Other assets	3,430	2,197
TOTAL ASSETS	\$ 304,409	\$ 302,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 21,958	\$ 20,645
Interest-bearing	245,836	250,794
Total deposits	267,794	271,439
Short-term borrowings	10,000	-
Long-term debt	4,207	6,763
Accrued interest payable	64	98
Other liabilities	641	1,206
Total Liabilities	282,706	279,506
STOCKHOLDERS' EQUITY		
Preferred stock series C, \$1.00 par; 7,492 shares issued and outstanding in 2013 and 2012 (liquidation preference \$1,000 per share)	7,492	7,492
Common stock, \$1.00 par; 12,000,000 shares authorized; 3,001,688 and 2,999,718 shares issued and outstanding in 2013 and 2012, respectively	3,001	2,999
Additional paid-in capital	14,923	14,904
Retained deficit	(2,524)	(2,885)
Accumulated other comprehensive income (loss)	(1,189)	43
Total Stockholders' Equity	21,703	22,553
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 304,409	\$ 302,059

See notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF INCOME

(in thousands, except share data)

	Year Ended December 31,	
	2013	2012
INTEREST INCOME		
Interest and fees on loans	\$ 10,934	\$ 10,712
Interest and dividends on securities	670	569
Interest-bearing deposits in other banks	49	39
Federal funds sold	71	79
Total interest income	11,724	11,399
INTEREST EXPENSE		
Interest on deposits	2,356	2,949
Interest on long-term debt	161	185
Total interest expense	2,517	3,134
Net interest income	9,207	8,265
Provision for loan losses	1,354	1,353
Net interest income after provision for loan losses	7,853	6,912
NONINTEREST INCOME		
Service charges on deposit accounts	83	99
Other loan fees and servicing income	199	223
Net gain on sale of loans	371	251
Gains (losses) on sale of other real estate owned	(230)	42
Net gain on sale of securities	-	145
Total other-than-temporary impairment ("OTTI") losses	(141)	(63)
Non-credit portion of OTTI recognized in other comprehensive income	119	(93)
Net OTTI losses recognized in earnings	(22)	(156)
Other income	194	165
Total noninterest income	595	769
NONINTEREST EXPENSE		
Salaries and employee benefits	3,745	3,098
Occupancy and equipment	1,115	916
Legal and professional fees	342	376
Data processing	440	429
Advertising and marketing	348	274
Shares and capital stock tax	186	154
Directors expense	170	148
Federal deposit insurance	274	233
Other expenses	1,241	1,044
Total noninterest expense	7,861	6,672
Income before income tax	587	1,009
Income tax expense	151	301
NET INCOME	436	708
Preferred stock dividends and discount accretion	(75)	(75)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 361	\$ 633
PER SHARE DATA		
Basic earnings per share	\$ 0.12	\$ 0.23
Diluted earnings per share	\$ 0.12	\$ 0.23
Average shares outstanding (basic)	2,998,951	2,741,791
Average shares outstanding (diluted)	3,019,894	2,760,885

See notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	December 31,	
	2013	2012
NET INCOME	\$ 436	\$ 708
Other comprehensive income (loss):		
Unrealized holding losses on available-for-sale securities	(1,874)	(97)
Tax effect	637	34
Reclassification adjustment for gains recognized in income	-	(145)
Tax effect	-	49
Accretion of losses on securities transferred to held to maturity	23	43
Tax effect	(8)	(15)
Unrealized holding gains (losses) due to other-than-temporary impairment on held-to-maturity securities	(38)	93
Tax effect	13	(32)
Other-than-temporary impairment losses recognized in earnings	22	156
Tax effect	(7)	(53)
Total other comprehensive income (loss)	(1,232)	33
COMPREHENSIVE INCOME (LOSS)	\$ (796)	\$ 741

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)	Preferred Stock Series C	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	\$ 7,492	\$ 2,688	\$ 13,274	\$ (3,518)	\$ 10	\$ 19,946
Net income				708		708
Other comprehensive income					33	33
Stock-based compensation plans:						
Vesting of restricted stock (6,952 shares)		6	(6)			-
Restricted stock - compensation expense			30			30
Stock options - compensation expense			24			24
Preferred stock dividend				(75)		(75)
Issuance of common stock (304,847 shares)		305	1,582			1,887
Balance, December 31, 2012	7,492	2,999	14,904	(2,885)	43	22,553
Net income				436		436
Other comprehensive loss					(1,232)	(1,232)
Stock-based compensation plans:						
Vesting of restricted stock (1,970 shares)		2	(2)			-
Restricted stock - compensation expense			9			9
Stock options - compensation expense			12			12
Preferred stock dividend				(75)		(75)
Balance, December 31, 2013	\$ 7,492	\$ 3,001	\$ 14,923	\$ (2,524)	\$ (1,189)	\$ 21,703

See notes to consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Year Ended December 31,	
	2013	2012
Cash flows from operating activities		
Net income	\$ 436	\$ 708
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,354	1,353
Depreciation and amortization	599	520
Stock-based compensation	21	54
Deferred income tax benefit	100	113
Loans originated for sale	(10,913)	(14,544)
Proceeds from sale of loans	12,343	14,130
Net gain on sale of loans	(371)	(251)
Increase in accrued interest receivable	(1)	(27)
Decrease in accrued interest payable	(34)	(28)
Net gain on sale of securities	-	(145)
Net OTTI losses recognized in earnings	22	156
Decrease in prepaid federal depository insurance	60	216
Net loss on sale of assets	230	75
Other, net	(208)	528
Net cash provided by operating activities	3,638	2,858
Cash flows from investing activities		
Net (increase) decrease of investment certificates of deposits	3,836	(4,437)
Sales of available-for-sale securities	-	2,369
Maturities and principal pay downs of available-for-sale securities	6,189	13,101
Maturities and principal pay downs of held-to-maturity securities	115	139
Purchases of available-for-sale securities	(16,989)	(16,863)
Purchases of regulatory stock	(1,063)	(526)
Redemption of regulatory stock	1,042	273
Net increase in loans	(24,842)	(29,926)
Purchases of bank premises and equipment	(1,525)	(957)
Proceeds from disposal of other real estate owned	704	249
Purchase of bank-owned life insurance	(1,500)	-
Proceeds from disposal of bank premises and equipment	-	273
Net cash used by investing activities	(34,033)	(36,305)
Cash flows from financing activities		
Net increase (decrease) in deposits	(3,645)	47,852
Net increase in short-term borrowings	10,000	-
Payments on long-term debt	(2,556)	(2,679)
Dividends paid - preferred stock	(75)	(56)
Net proceeds from issuance of common stock	-	1,887
Net cash provided by financing activities	3,724	47,004
Net increase (decrease) in cash and cash equivalents	(26,671)	13,557
Cash and cash equivalents at beginning of period	45,893	32,336
Cash and cash equivalents at end of period	\$ 19,222	\$ 45,893
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 2,551	\$ 3,162
Income taxes	255	175
Supplemental schedule of noncash investing and financing activities:		
Other real estate acquired in settlement of loans	1,635	468
Securities purchased not settled	-	514

See notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies

Organization and Nature of Operations

Centric Financial Corporation ("Centric") or ("the Company") is a financial holding company which includes its wholly owned subsidiary, Centric Bank ("the Bank").

The Bank entails virtually all of Centric's ongoing operations. The Bank offers customers a range of deposit, loan, and other services typical of community banks through four offices in south central Pennsylvania and online banking channels. The Bank's principal source of revenue emanates from interest income from its portfolio of commercial and residential real estate loans, commercial loans, and consumer loans, as well as from its investment portfolio.

Centric is subject to regulation and supervision of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation ("FDIC").

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The accounts of Centric and the Bank are consolidated with the elimination of all intercompany transactions and balances.

Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense, and the nature and extent of disclosures. Ultimate results could differ significantly from those estimates and assumptions. Centric's material estimates that are particularly susceptible to significant change in the near term relate to the valuation of loans, the allowances for loan and other credit losses, and other-than-temporary impairment evaluations of securities, evaluation of goodwill impairment, deferred tax valuation, and fair value of financial instruments.

In the ordinary course of business, Centric and the Bank are parties to legal proceedings that entail uncertainty. In management's opinion, Centric's financial position and results of operations would not be materially impacted by the outcome of such proceedings individually or in the aggregate.

Cash and Cash Equivalents

Cash and cash equivalents with original maturities of 90 days or less include cash, balances due from banks, interest-bearing demand deposits in other banks, and federal funds sold. Federal funds sold are generally for one-day periods. The Bank has been required to maintain average balances with the Federal Reserve Bank. In 2012, the Bank engaged in a deposit reclassification program that evaluates the unused balance of transaction accounts. The unused portion is then reclassified as a non-transaction account. This allows the Bank to reclaim the balances held at the Federal Reserve Bank for investment or operating use. The Federal Reserve Bank of Philadelphia approved the use of this program for Centric Bank in the second quarter of 2012. The required minimum balance was \$0 at December 31, 2013 and 2012.

Credit Risk Concentrations

As a community bank, most of the Bank's loans and credit commitments are comprised of Pennsylvania customers, primarily individuals and entities situated in Dauphin and Cumberland counties.

Securities

Investment securities are classified when purchased as either "securities available for sale" or "securities held to maturity."

Securities classified as "available for sale" are those debt securities that the Bank intends to hold for an indefinite

**Note 1 | Significant Accounting Policies** *(continued)*

period of time but not necessarily to maturity, and are carried at fair value. Unrealized gains or losses are included in other comprehensive income, net of the related deferred tax effect. Realized gains and losses on disposition of securities are recognized as noninterest income measured on specific identification of the simple difference between net proceeds and adjusted book value. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as “held to maturity” are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security’s ability to recover any decline in its market value, and whether or not management intends to sell the security or whether it is more likely than not that they would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of any allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance.

Lease contracts are classified as direct finance leases. Lessees guarantee 100 percent of the leases’ residual value at the conclusion of the lease term.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income as losses are estimated to have occurred. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management’s periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions,

**Note 1 | Significant Accounting Policies** *(continued)*

and other relevant factors. This evaluation is inherently subjective, since it requires material estimates that may be susceptible to significant change.

The allowance consists of specific and general components. The specific component relates to loans that are classified as Substandard or Special Mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the original contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent.

Purchased loans with evidence of credit quality deterioration for which it is probable at purchase that all contractually required payments will not be collected are acquired with deteriorated credit quality. Centric accounts for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans acquired in a transfer if those differences are attributable, at least in part, to credit quality. Centric records impaired loans at fair value and did not carry over valuation allowances in the initial accounting for loans acquired in a transfer, including loans acquired in a purchase business combination. The excess of cash flows expected at purchase over the purchase price is recognized as interest income over the life of the loans. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

Unfunded Credit Commitments

In the ordinary course of business, the Bank enters into commitments to extend credit and letters of credit. Such financial instruments are recorded when funded. A reserve for unfunded lending commitments under contract, lines and letter of credit, is included in other liabilities.

Restricted Investments in Bank Stocks

Under membership agreement, the Bank is required to own stock issued by Atlantic Central Bankers Bank. Because ownership and disposition is restricted, the shares lack a market for measuring fair value and are recorded at cost.

The Bank is also a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such is required to maintain a minimum investment in stock of the FHLB, which varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by

**Note 1 | Significant Accounting Policies** *(continued)*

the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Goodwill

Goodwill represents the amount paid to acquire the Bank beyond the fair value of the identifiable net assets acquired. Goodwill is not amortized but rather is tested for impairment at least annually. For federal tax purposes, goodwill is amortized on a straight-line basis over 15 years. There was no impairment of goodwill for 2013 and 2012.

Core Deposit Intangibles

Core deposit intangibles represent the asset identified for depositor relationships acquired with the Bank. This asset was valued at acquisition based upon the economic advantages of core deposits as a funding source. This acquired asset is being amortized using an accelerated method with an estimated useful life of ten years; \$8,000 and \$10,000 of amortization expense was recognized in 2013 and 2012, respectively. The unamortized balance was \$13,000 and \$21,000 at December 31, 2013 and 2012, respectively. Amortization expense will be \$6,000, \$5,000, and \$2,000 for years 2014, 2015, and 2016, respectively.

Mortgage Servicing Rights and Related Credit Enhancement Fees

The Bank sold residential mortgages to FHLB under the Mortgage Partnership Finance Program ("MPF"). The Bank is no longer an active participant in the MPF program. Under this program, the Bank services the portfolio sold to the FHLB and receives corresponding fees. The MPF program also entails a credit enhancement arrangement whereby the Bank receives a fee for retaining a residual contingent liability for the repayment of loans sold to the FHLB.

Assets for mortgage servicing rights and related credit enhancement fees were recorded at fair value corresponding to net cash flows expected for servicing and credit enhancement of the MPF portfolio. Mortgage servicing rights are \$8,000 and \$25,000 at December 31, 2013 and 2012, respectively. These assets are amortized based upon portfolio activity and subject to ongoing evaluation for any permanent impairment.

MPF portfolio fees earned amounted to \$25,000 and \$39,000 for 2013 and 2012, respectively. The MPF portfolio balance was \$5,606,000 and \$8,565,000 at December 31, 2013 and 2012, respectively. The FHLB maintains a first-loss position for the MPF portfolio that totals \$301,000. Should the FHLB exhaust its first-loss position, recourse to the Bank's credit enhancement would be up to the next \$113,000 of losses. The Bank has not experienced any losses for the MPF portfolio. The value of credit enhancement fees receivable, net of an estimated liability, was \$5,000 and \$15,000 at December 31, 2013 and 2012, respectively.

Transfers of Financial Assets

The Bank sells interests in loans receivable through loan participation sales. The Bank accounts for these transactions as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Bank retains servicing responsibilities for the loan participation sales. The Bank does not recognize a servicing asset or liability, since the amount received for servicing the loan participations is a reasonable approximation of market rates and servicing costs.

**Note 1 | Significant Accounting Policies** *(continued)***Advertising Costs**

The Bank charges advertising costs to expense as accrued.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by Centric relate to outstanding stock options and warrants and non-vested restricted stock.

Anti-dilutive options and warrants to purchase 11,750 and 24,674 shares of common stock, at a weighted-average price of \$6.00 and \$5.89 outstanding at December 31, 2013 and 2012, respectively; and unvested restricted shares of 1,080 and 2,750 at a price of \$6.00 and \$5.92 at December 31, 2013 and 2012, respectively, were not included in dilutive earnings per share.

(in thousands, except per share data)

	2013	2012
Net income	\$ 436	\$ 708
Preferred stock dividends	(75)	(75)
Net income available to common shareholders	<u>\$ 361</u>	<u>\$ 633</u>
Weighted-average number of shares outstanding (basic)	2,998,951	2,741,791
Effect of dilutive securities	<u>20,943</u>	<u>19,094</u>
Weighted-average number of shares outstanding (diluted)	<u>3,019,894</u>	<u>2,760,885</u>
Per share information:		
Basic earnings per share	\$ 0.12	\$ 0.23
Diluted earnings per share	\$ 0.12	\$ 0.23

Stock-Based Compensation

Centric records the cash flow from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefit) be classified as financing cash flows. During 2013 and 2012, no stock options were exercised.

Accumulated Other Comprehensive Income or Loss

Centric recognizes revenue, expenses, gains, and losses in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the Consolidated Balance Sheet.

**Note 1 | Significant Accounting Policies** *(continued)*

Such items are included as components of accumulated comprehensive income (loss) as of December 31, 2013 and 2012, as follows:

(in thousands)

	2013			2012		
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total
Beginning balance	\$ 126	\$ (83)	\$ 43	\$ 285	\$ (275)	\$ 10
Other comprehensive income (loss) before reclassifications	(1,237)	(10)	(1,247)	(63)	89	26
Amounts reclassified from accumulated other comprehensive income (loss)	-	15	15	(96)	103	7
Net current-period other comprehensive income (loss)	(1,237)	5	(1,232)	(159)	192	33
Ending balance	\$ (1,111)	\$ (78)	\$ (1,189)	\$ 126	\$ (83)	\$ 43

The following illustrates amounts reclassified out of each component of accumulated other comprehensive income.

(in thousands)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income is Presented
	2013	2012	
Sale of available for sale securities	\$ -	\$ (145)	Net gain on sale of securities
Tax effect	-	49	Income tax expense
	-	(96)	Net of tax
Other-than-temporary impairment losses on held to maturity securities	\$ 22	\$ 156	Net OTTI losses recognized in earnings
Tax effect	(7)	(53)	Income tax expense
	15	103	Net of tax
Total reclassification for the period	\$ 15	\$ 7	Net of tax

**Note 2 | Investment Securities**

The Consolidated Balance Sheet presents “available-for-sale” securities at fair value. Corresponding unrealized gains and losses do not affect net income but are recorded in accumulated other comprehensive income, net of related deferred income taxes.

A summary of securities available for sale is as follows:

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
U.S. government agency securities	\$ 18,266	\$ -	\$ (947)	\$ 17,319
Municipal securities	2,903	-	(383)	2,520
Government sponsored mortgage-backed securities	15,438	106	(459)	15,085
Total	\$ 36,607	\$ 106	\$ (1,789)	\$ 34,924
December 31, 2012				
U.S. government agency securities	\$ 10,299	\$ 15	\$ (42)	\$ 10,272
Municipal securities	1,977	8	(5)	1,980
Government sponsored mortgage-backed securities	14,194	225	(10)	14,409
Total	\$ 26,470	\$ 248	\$ (57)	\$ 26,661

A summary of securities held to maturity is as follows:

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Government sponsored mortgage-backed securities	\$ 798	\$ -	\$ -	\$ 798
December 31, 2012				
Government sponsored mortgage-backed securities	\$ 929	\$ 22	\$ -	\$ 951

Securities with a fair value of \$32,399,000 and \$24,147,000 were pledged to collateralize bank deposits by Pennsylvania local governments, FHLB advances, and the discount window as of December 31, 2013 and 2012, respectively.

The amortized cost and fair value of debt securities owned at December 31, 2013, by contractual maturity, are shown below:

<i>(in thousands)</i>	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	6,487	6,344	-	-
Due after five years through ten years	12,930	12,109	-	-
Due after ten years	17,190	16,471	798	798
Total investment securities	\$ 36,607	\$ 34,924	\$ 798	\$ 798

**Note 2 | Investment Securities** (continued)

A summary of securities available for sale which were in an unrealized loss position is as follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in thousands)</i>						
December 31, 2013						
U.S. government agency securities	\$ 14,085	\$ (681)	\$ 3,234	\$ (266)	\$ 17,319	\$ (947)
Municipal securities	2,520	(383)	-	-	2,520	(383)
Government sponsored mortgage-backed securities	7,818	(376)	1,096	(83)	8,914	(459)
Total temporarily impaired securities	\$ 24,423	\$ (1,440)	\$ 4,330	\$ (349)	\$ 28,753	\$ (1,789)
<i>(in thousands)</i>						
December 31, 2012						
U.S. government agency securities	\$ 6,758	\$ (42)	\$ -	\$ -	\$ 6,758	\$ (42)
Municipal securities	1,235	(5)	-	-	1,235	(5)
Government sponsored mortgage-backed securities	3,222	(10)	-	-	3,222	(10)
Total temporarily impaired securities	\$ 11,215	\$ (57)	\$ -	\$ -	\$ 11,215	\$ (57)

Securities are evaluated on an ongoing basis to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected is less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and management's intent to sell the security or whether it is more likely than not that they would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Centric reviews investment securities on an ongoing basis for potential impairment which would be other than temporary and has adopted the provision which provides for the bifurcation of other-than-temporary impairment ("OTTI") into two categories: (a) the amount of the total OTTI related to a decrease in expected cash flows to be collected (credit loss) which is recognized through earnings; and (b) the amount of OTTI related to all other factors, which is recognized, net of income taxes, as a component of other comprehensive income. Centric recorded credit-related impairment of \$22,000 on two private label mortgage-backed securities through earnings as of December 31, 2013, and \$156,000 on three private label mortgage-backed securities through earnings as of December 31, 2012. There were 67 securities that were temporarily impaired at December 31, 2013.

Changes in credit losses during 2013 and 2012 associated with investment securities for which other-than-temporary impairment losses have been previously recognized in both earnings and other comprehensive income follow:

<i>(in thousands)</i>	Year Ended December 31	
	2013	2012
Estimated credit losses - beginning balance	\$ 391	\$ 363
Additions for credit losses not previously recognized	22	156
Reductions for increases in cash flows	-	-
Reductions for realized losses	-	(128)
Estimated credit losses - ending balance	\$ 413	\$ 391

There were no sales or proceeds from sales of securities during 2013. During the year ended December 31, 2012, the Bank sold five securities totaling \$2,258,000 resulting in gross gains of \$145,000.

**Note 3 | Loans**

The composition of loans, net of unamortized loan origination fees of \$150,000 and \$131,000, at December 31, 2013 and 2012, is as follows:

<i>(in thousands)</i>	2013	2012
Commercial	\$ 36,594	\$ 32,745
Real estate - construction	15,550	11,325
Real estate - residential owner occupied	39,013	38,873
Real estate - residential non-owner occupied	19,052	18,960
Real estate - commercial	119,164	105,786
Consumer	789	820
Total loans	<u>230,162</u>	<u>208,509</u>
Allowance for loan losses	<u>(2,708)</u>	<u>(2,918)</u>
Net loans	<u>\$ 227,454</u>	<u>\$ 205,591</u>

Note 4 | Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has grouped certain loans in the portfolio into the following segments: commercial; real estate - construction; real estate - residential owner occupied; real estate - residential non-owner occupied; real estate - commercial; consumer; and unallocated. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed for each portfolio segment:

- Levels of and trends in delinquencies and nonaccruals
- Trends in volume and terms
- Changes in lending policies and procedures
- Volatility of losses within each risk category
- Economic trends; concentrations of credit
- Experience depth and ability of management

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of approximately \$2,708,000 adequate to cover loan losses inherent in the loan portfolio, as of and for the year ending December 31, 2013. The following table presents, by portfolio segment, the activity within the allowance for loan losses and the ending balance of the allowance for loan losses for 2013:

<i>(in thousands)</i>	Balance at December 31, 2012	Charged-off Loans	Recoveries	Provision	Balance at December 31, 2013
Commercial	\$ 442	\$ (202)	\$ -	\$ 435	\$ 675
Real estate - construction	117	-	-	33	150
Real estate - residential owner occupied	496	(45)	2	(123)	330
Real estate - residential non-owner occupied	445	(704)	12	537	290
Real estate - commercial	1,287	(630)	-	339	996
Consumer	76	-	3	(65)	14
Unallocated	55	-	-	198	253
Total	<u>\$ 2,918</u>	<u>\$ (1,581)</u>	<u>\$ 17</u>	<u>\$ 1,354</u>	<u>\$ 2,708</u>

**Note 4 | Allowance for Loan Losses** *(continued)*

Allowance for loan losses activity during 2012 is as follows:

<i>(in thousands)</i>	Balance at December 31, 2011	Charged-off Loans	Recoveries	Provision	Balance at December 31, 2012
Commercial	\$ 448	\$ (203)	\$ 8	\$ 189	\$ 442
Real estate - construction	126	-	-	(9)	117
Real estate - residential owner occupied	280	-	-	216	496
Real estate - residential non-owner occupied	866	(675)	-	254	445
Real estate - commercial	503	(15)	-	799	1,287
Consumer	104	(34)	2	4	76
Unallocated	155	-	-	(100)	55
Total	\$ 2,482	\$ (927)	\$ 10	\$ 1,353	\$ 2,918

Changes in allowance for loan losses associated with the commercial loan portfolio were primarily the result of increases in the volume of the portfolio. The allowance for loan losses related to the real estate - residential owner occupied and real estate - commercial loan portfolios declined from the previous year primarily due to charge-offs in 2013 for loans identified as impaired in which specific allowance for loan loss allocations were made in 2012. The real estate - residential non-owner occupied allowance for loan losses declined as a result of the identification and subsequent charge-off of a specific troubled loan relationship, which significantly improved the nonperforming loan totals for this portfolio segment.

The following tables present, by portfolio segment, the recorded investment in those loans for 2013 and 2012:

<i>(in thousands)</i>	December 31, 2013		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	\$ 224	\$ 451	\$ 675
Real estate:			
Construction	-	150	150
Residential owner occupied	-	330	330
Residential non-owner occupied	94	196	290
Commercial	-	996	996
Consumer	-	14	14
Unallocated	-	253	253
Total	\$ 318	\$ 2,390	\$ 2,708
Loans, ending balance:			
Commercial	\$ 627	\$ 35,967	\$ 36,594
Real estate:			
Construction	-	15,550	15,550
Residential owner occupied	253	38,760	39,013
Residential non-owner occupied	714	18,338	19,052
Commercial	68	119,096	119,164
Consumer	-	789	789
Total	\$ 1,662	\$ 228,500	\$ 230,162

**Note 4 | Allowance for Loan Losses** (continued)

(in thousands)

	December 31, 2012		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	\$ -	\$ 442	\$ 442
Real estate:			
Construction	-	117	117
Residential owner occupied	150	346	496
Residential non-owner occupied	-	445	445
Commercial	300	987	1,287
Consumer	-	76	76
Unallocated	-	55	55
Total	<u>\$ 450</u>	<u>\$ 2,468</u>	<u>\$ 2,918</u>
Loans, ending balance:			
Commercial	\$ 923	\$ 31,822	\$ 32,745
Real estate:			
Construction	-	11,325	11,325
Residential owner occupied	389	38,484	38,873
Residential non-owner occupied	1,723	17,237	18,960
Commercial	1,088	104,698	105,786
Consumer	-	820	820
Total	<u>\$ 4,123</u>	<u>\$ 204,386</u>	<u>\$ 208,509</u>

Credit Quality and Aging

The following tables represent credit exposures by internally assigned grades for 2013 and 2012. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

The Bank's internally assigned grades are as follows:

- **Pass** – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.
- **Special Mention** – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.
- **Substandard** – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- **Loss** – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

(in thousands)

	December 31, 2013			
	Commercial	Real Estate Construction	Real Estate Non-owner Occupied	Real Estate Commercial
Pass	\$ 35,724	\$ 15,040	\$ 17,908	\$ 118,871
Special Mention	-	333	-	-
Substandard	870	177	1,144	293
Loss	-	-	-	-
Total	<u>\$ 36,594</u>	<u>\$ 15,550</u>	<u>\$ 19,052</u>	<u>\$ 119,164</u>

**Note 4 | Allowance for Loan Losses** *(continued)**(in thousands)*

	December 31, 2013			
	Commercial	Real Estate- Construction	RealEstate Residential Non-owner Occupied	Real Estate- Commercial
Pass	\$ 30,122	\$ 11,325	\$ 16,797	\$ 103,146
Special Mention	1,681	-	-	140
Substandard	942	-	2,163	2,500
Loss	-	-	-	-
Total	<u>\$ 32,745</u>	<u>\$ 11,325</u>	<u>\$ 18,960</u>	<u>\$ 105,786</u>

Payment activity for the noncommercial portfolio is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered nonperforming when they become 90 days past due or the Bank is in possession of other information that would deem the loan nonperforming. The following table presents performing and nonperforming loans based on payment activity as of December 31:

(in thousands)

	December 31, 2013	
	Real Estate Residential Owner Occupied	Consumer
Performing	\$ 38,665	\$ 763
Non Performing	348	26
	<u>\$ 39,013</u>	<u>\$ 789</u>

(in thousands)

	December 31, 2012	
	Real Estate Residential Owner Occupied	Consumer
Performing	\$ 38,156	\$ 789
Non Performing	717	31
	<u>\$ 38,873</u>	<u>\$ 820</u>

Past-Due and Nonaccrual Loans

Generally, loans are considered nonaccrual upon reaching 90 days of delinquency, although the Bank may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following table presents performing and nonperforming loans and aging analysis of the recorded investment of past-due financing receivables, broken by segment and sub-segment, based on payment activity for the years ended December 31, 2013 and 2012. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are generally considered to be nonperforming when they become 90 days past due

(in thousands)

	December 31, 2013					
	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Non accrual
Commercial	\$ 99	\$ 404	\$ 503	\$ 36,091	\$ 36,594	\$ 627
Real estate - construction	-	177	177	15,373	15,550	177
Real estate - residential owner occupied	337	348	685	38,328	39,013	281
Real estate - residential non-owner occupied	149	502	651	18,401	19,052	784
Real estate - commercial	40	68	108	119,056	119,164	68
Consumer	-	26	26	763	789	26
Total	<u>\$ 625</u>	<u>\$ 1,525</u>	<u>\$ 2,150</u>	<u>\$ 228,012</u>	<u>\$ 230,162</u>	<u>\$ 1,963</u>

**Note 4 | Allowance for Loan Losses** (continued)

(in thousands)

	December 31, 2012					
	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Non accrual
Commercial	\$ -	\$ 857	\$ 857	\$ 31,888	\$ 32,745	\$ 889
Real estate - construction	-	-	-	11,325	11,325	-
Real estate - residential owner occupied	1,306	466	1,772	37,101	38,873	587
Real estate - residential non-owner occupied	198	1,657	1,855	17,105	18,960	1,777
Real estate - commercial	276	754	1,030	104,756	105,786	754
Consumer	-	31	31	789	820	31
Total	\$ 1,780	\$ 3,765	\$ 5,545	\$ 202,964	\$ 208,509	\$ 4,038

At December 31, 2013, there were \$115,000 of loans greater than 90 days past due still accruing interest. There were no loans 90 days past due or greater accruing interest at December 31, 2012.

Impaired Loans

Management analyzes loans which are 90 days or more past due for impairment to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

Loans acquired with deteriorated credit quality had outstanding contractual balances of \$129,000 and \$152,000 and carrying amounts of \$74,000 and \$97,000 as of December 31, 2013 and 2012, respectively.

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable, as of and for the years ended December 31, 2013 and 2012.

(in thousands)

	December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 68	\$ 371	\$ -	\$ 425	\$ 2
Real estate:					
Construction	-	-	-	-	-
Residential owner occupied	253	253	-	240	3
Residential non-owner occupied	377	486	-	1,002	16
Commercial	68	68	-	485	29
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial	559	709	224	466	5
Real estate:					
Construction	-	-	-	-	-
Residential owner occupied	-	-	-	-	-
Residential non-owner occupied	337	337	94	322	-
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Total	\$ 1,662	\$ 2,224	\$ 318	\$ 2,940	\$ 55

**Note 4 | Allowance for Loan Losses** *(continued)**(in thousands)*

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 923	\$ 1,136	\$ -	\$ 864	\$ 20
Real estate:					
Construction	-	-	-	-	-
Residential owner occupied	95	95	-	102	1
Residential non-owner occupied	1,723	1,889	-	1,208	38
Commercial	335	335	-	344	21
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial	-	-	-	-	-
Real estate:					
Construction	-	-	-	-	-
Residential owner occupied	294	294	150	176	-
Residential non-owner occupied	-	-	-	-	-
Commercial	753	752	300	449	17
Consumer	-	-	-	-	-
Total	\$ 4,123	\$ 4,501	\$ 450	\$ 3,143	\$ 97

Loan Modifications

Situations may arise that would cause the Bank to grant a concession for other-than-temporary purpose to the borrower that the Bank would not otherwise consider. The loan receiving the concession would then be classified as a troubled debt restructuring ("TDR"). The situations leading to the concession may be economic or legal in nature and affect the borrower's ability to meet the contractual obligation to the Bank. Management actively attempts to identify borrowers having financial difficulty early, and work with them to modify terms prior to the loan becoming nonaccrual. Modifications may include rate reductions, payment forbearance, principal reduction, or other actions with the intent to minimize the loss and/or avoid foreclosure or repossession of collateral. In cases where a restructure occurs, management measures impairment based on collateral to support the revised terms of the loan. If the loan is not collateral dependent, impairment is calculated using the present value of the revised loan terms compared to the investment in the loan prior to the restructure. TDRs are individually evaluated and provided for in the allowance for loan losses and are therefore excluded from pooled portfolio allocations. Management continually evaluates loans that are considered TDRs under the modified loan terms, including payment history and the borrower's ability to continue to repay the loan based on continued evaluations of their results of operation and cash flow from operations.

Loan modifications considered TDRs completed during the year ended December 31, 2013, are as follows:

(in thousands)

	December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	\$ 98	\$ 98
Real estate:			
Construction	-	-	-
Residential owner occupied	4	307	319
Residential non-owner occupied	1	214	214
Commercial	1	102	102
Consumer	-	-	-
Total troubled debt restructurings	7	\$ 721	\$ 733

There were no loan modifications that were considered TDRs during the year ended December 31, 2012.

No loans modified and considered TDRs that were made during the 12 months previous to December 31, 2013 or 2012, have defaulted in the current reporting period.

**Note 5 | Premises and Equipment**

Ongoing additions to premises and equipment are recorded at cost. Occupancy and equipment expense includes depreciation expense of \$413,000 and \$356,000, respectively, for the years ended 2013 and 2012. Depreciation expense is calculated on the straight-line method over estimated economic lives: buildings and improvements, 15 to 40 years; leasehold improvements, 10 years; furniture, fixtures, and equipment, 3 to 10 years.

Premises and equipment at December 31 were comprised of:

<i>(in thousands)</i>	2013	2012
Land	\$ 3,252	\$ 2,929
Buildings and improvements	2,658	1,728
Leasehold improvements	1,507	1,497
Furniture, fixtures, and equipment	1,889	1,627
Subtotal	9,306	7,781
Less: accumulated depreciation	(1,832)	(1,419)
Premises and equipment - net	<u>\$ 7,474</u>	<u>\$ 6,362</u>

Lease expense amounted to \$274,000 for 2013 and \$211,000 for 2012. Future minimum lease payments are as follows:

<i>(in thousands)</i>	
2014	\$ 282
2015	291
2016	300
2017	263
2018	41
Thereafter	-
	<u>\$ 1,177</u>

Note 6 | Deposits

Centric's deposits at December 31 were comprised of:

<i>(in thousands)</i>	2013	2012
Demand, noninterest-bearing	\$ 21,958	\$ 20,645
Demand, interest-bearing	119,102	121,449
Savings	7,873	18,157
Money market	26,488	30,068
Time deposits	92,373	81,120
	<u>\$ 267,794</u>	<u>\$ 271,439</u>

Scheduled maturities of time deposits are:

<i>(in thousands)</i>	
2014	\$ 61,139
2015	20,686
2016	4,642
2017	3,742
2018	2,164
	<u>\$ 92,373</u>

Time deposits in denominations of \$100,000 or greater totaled \$50,989,000 for 2013 and \$41,197,000 for 2012.

**Note 7 | Short-Term Borrowings**

Short-term borrowings, which consist of federal funds purchased and other short-term borrowings are summarized as follows:

<i>(in thousands)</i>	At December 31, 2013	
Balance	\$	10,000
Maximum indebtedness at any month end		10,000
Average balance during year		27
Average rate paid for the year		0.25%
Interest rate on year-end balance		0.25%

Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances. These borrowing transactions can range from overnight to one year in maturity. The average maturity was one day at the end of 2013. There were no short-term borrowings in 2012.

Note 8 | Long-Term Debt

As one avenue for funding growth, the Bank is approved by the FHLB for borrowings of up to \$112,388,000. At year-end, \$1,707,000 was outstanding and \$9,000,000 was held as letters of credit to secure specific deposit balances. Additional borrowing capacity for FHLB borrowings was \$91,681,000 at year-end. The Company also has a borrowing with another institution in the amount of \$2,500,000, which has a stated rate of 5.00 percent and an original maturity date in 2013, this has been extended through January 2014.

The following table presents borrowings that mature at various dates through 2016 with weighted-average rates as follows:

<i>(in thousands)</i>	Principal Amount		Rate	
	2013	2012	2013	2012
Advances from FHLB				
Fixed	\$ -	\$ 2,000	-	1.00%
Amortizing	1,707	2,263	1.17%	1.17%
Other borrowings	2,500	2,500	5.00%	5.00%
	<u>\$ 4,207</u>	<u>\$ 6,763</u>	<u>3.45%</u>	<u>2.54%</u>

The aggregate amount of future principal payments required on these borrowing at December 31, 2013, is as follows:

<i>(in thousands)</i>	
2014	\$ 3,062
2015	569
2016	576
	<u>\$ 4,207</u>

**Note 9 | Stock Plans and 401K****401(k) Plan**

The Bank has a 401(k) plan whereby all employees are eligible to participate after 90 days of employment. Employees may make contributions to the plan, subject to certain limitations based on federal tax laws. The Bank makes matching contributions of 50 percent of employees' contributions, subject to a maximum contribution of 4 percent of an employee's compensation. Matching contributions vest to the employee on a graded percentage and are fully vested in five years. For the years ended December 31, 2013 and 2012, expense attributable to the plan amounted to \$39,000 and \$29,000, respectively, and is included in salaries and employee benefits on the Consolidated Statement of Income.

Stock Options and Warrants

The Company has a Stock Incentive Plan (the "Plan") that enables the Company to grant stock options, warrants, or restricted stock to directors and other designated employees. The Plan covers 240,000 shares of common stock. The number of shares available for grant at December 31, 2013 was 79,425.

Options granted under the Plan will have an option price at least equal to the fair market value of the common stock on the date of the grant. The options expire not more than ten years after the date of the grant. Exercise and vesting dates and terms may vary and are specified at the date of the grant.

In addition to those shares granted under the stock incentive plan, the Company also granted warrants to designated officers and directors. Warrants expire not more than ten years after the date of the grant. Exercise and vesting dates and terms may vary and are specified at the date of the grant.

Options and warrants of the Plan outstanding at December 31, 2013, and the activity that occurred during the year consisted of the following:

	Options and Warrants	Weighted- Average Exercise Price
Outstanding at the beginning of the year	142,153	\$ 5.46
Granted	7,282	6.00
Exercised	-	-
Forfeited	(4,155)	5.88
Outstanding at the end of the year	<u>145,280</u>	<u>\$ 5.48</u>
Exercisable at December 31	<u>135,318</u>	<u>\$ 5.45</u>

At December 31, 2013, the aggregate intrinsic value of all options and warrants outstanding and exercisable were approximately \$76,000 and \$75,000, respectively. The weighted-average remaining life of outstanding and exercisable options and warrants is 5.71 and 5.56 years, respectively. No options were exercised during 2012 or 2013.

For the years ended December 31, 2013 and 2012, stock option compensation expense of \$12,000 and \$24,000 were recognized in connection with the option plan, respectively. Tax benefits of \$2,000 and \$3,000 were recognized relative to these stock options at December 31, 2013 and 2012, respectively. At December 31, 2013, future compensation expense related to non-vested stock option grants is expected to be recognized as \$4,000 and \$1,000 in 2014 and 2015, respectively. There is no related expense for 2016.

Common stock warrants were issued in 2006 to certain directors to purchase an aggregate share of common stock pursuant to the warrant grant. At December 31, 2013, 26,580 shares were outstanding and exercisable related to these warrants, with a weighted-average exercise price of \$4.91. There were no warrants exercised during 2012 or 2013.

**Note 9 | Stock Plans and 401K** *(continued)*

In addition to the options and warrants included in the Plan above, during 2010, the Company also granted one warrant to each of the directors of the Company, which are not part of the Plan. Each warrant represents 31,500 shares for a total of 315,000 shares, all of which vest only upon a change in control of the Company and have an exercise price of \$5.44. A warrant was issued to the President & CEO in July 2013 also for 31,500 shares at an exercise price of \$5.50 and will vest only upon a change in control of the Company. During 2013 and 2012 none of these warrants vested, and the Company recorded no compensation expense associated with these grants.

The fair value of the options granted during the years ended December 31, 2013 and 2012, was calculated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Exercise Price	Dividend Yield	Expected Volatility	Expected Life (Yrs)	Risk Free Interest Rate	Value Black Scholes
Nonemployee director stock options						
2013	\$6.00	0.00%	12.68%	5	0.82%	\$0.79
2012	6.00	0.00%	14.10%	5	0.79%	0.86
Employee stock options						
2012	6.00	0.00%	13.63%	6.5	1.37%	1.08

Restricted Stock

Under the Plan, the Company awarded 23,338 restricted shares to non-employee directors and executive officers subject to vesting and other provisions. Shares granted to the Plan participants of 1,970 and 6,952 had vested and been distributed at December 31, 2013 and 2012, respectively.

The following table summarizes transactions regarding restricted stock under the Plan:

	Number of Restricted Shares	Weighted-Average Grant Date Price Per Share
Non-vested shares at the beginning of the year	6,784	\$ 5.76
Granted	3,500	6.00
Vested	(1,970)	5.44
Forfeited	(263)	5.55
Non-vested shares at the end of the year	8,051	\$ 5.95

For the years ended December 31, 2013 and 2012, compensation expense of \$9,000 and \$30,000 was recognized in connection with the vesting of restricted stock, respectively. Tax benefits of \$3,000 and \$10,000 were recognized relative to these shares at December 31, 2013 and 2012, respectively. Future compensation expense related to non-vested restricted stock at December 31, 2013 is \$13,000, \$8,000 and \$5,000 in 2014, 2015, and 2016, respectively.

**Note 10 | Federal Income Taxes**

The provision for income taxes consists of the following for the years ended December 31:

<i>(in thousands)</i>	2013	2012
Currently payable	\$ 51	\$ 188
Deferred taxes	100	113
Total income tax expense	<u>\$ 151</u>	<u>\$ 301</u>

The following temporary differences gave rise to the net deferred tax assets at December 31:

<i>(in thousands)</i>	2013	2012
Deferred tax assets:		
Allowance for loan losses	\$ 921	\$ 992
Impairment losses on securities	42	53
Stock incentive expense	30	29
Uncollected interest	11	9
Unrealized losses on securities available-for-sale	573	-
Unrealized losses on securities held-to-maturity	40	43
Other real estate expense	42	52
Other	40	44
Total deferred tax assets	<u>1,699</u>	<u>1,222</u>
Deferred tax liabilities:		
Goodwill and core deposit intangible	61	50
Prepaid expenses	72	123
Loan origination costs	172	176
Unrealized gains on securities available-for-sale	-	65
Premises and equipment	214	164
Other	7	6
Total deferred tax liabilities	<u>526</u>	<u>584</u>
Net deferred tax assets	<u>\$ 1,173</u>	<u>\$ 638</u>

The total provision for income taxes is different from that computed at the statutory rates due to the following items for the years ended December 31:

<i>(in thousands)</i>	2013	2012
Computed statutory tax expense	\$ 200	\$ 343
Other, net	(49)	(42)
	<u>\$ 151</u>	<u>\$ 301</u>

**Note 10 | Federal Income Taxes** *(continued)*

The Company utilizes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examination by tax authorities for years before 2010.

Note 11 | Related-Party Transactions

Centric has transactions in the ordinary course of business with its directors, their immediate families, and affiliated companies (commonly referred to as related parties).

In management's opinion, all loans and deposits with related parties are on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers. At December 31, 2013, loans to related parties were \$16,174,000 and deposits by related parties totaled \$8,124,000. At December 31, 2012, loans to related parties were \$14,370,000 and deposits by related parties totaled \$6,730,000.

Related-party loan activity is summarized as follows:

<i>(in thousands)</i>	2013	2012
Balance at the beginning of the period	\$ 14,370	\$ 13,215
Additions	3,603	3,880
Reductions	1,799	2,725
Balance at end of period	<u>\$ 16,174</u>	<u>\$ 14,370</u>

All of Centric's directors are customers of the Bank. Centric shareholders number approximately 199 and many are Bank customers situated in the south central Pennsylvania community. Conversely, the Bank is a customer of some shareholder-related entities in the ordinary course of business. The Bank also had a joint venture arrangement with an insurance agency affiliated with a director that began in 2001. During 2012, the investment in the insurance agency was sold. During 2013, related-party transactions include \$111,000 of purchases and no revenue; in 2012, there were \$96,000 of purchases and \$16,000 in revenue.

The Company has employment agreements with two executive officers. The agreements include minimum annual salary commitments. Upon termination, these individuals will receive monetary compensation as set forth in the agreements.

**Note 12 | Unfunded Credit Commitments**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit by Centric's banking subsidiary. Such instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Unfunded lending commitments at year-end:

<i>(in thousands)</i>	2013	2012
Commitment to grant loans	\$ 6,460	\$ 14,852
Unfunded commitments under lines of credit	27,081	37,742
Standby letters of credit	1,132	1,433
Total unfunded lending commitments	<u>\$ 34,673</u>	<u>\$ 54,027</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment. Commitments under lines of credit presented above include lines that will be funded only to the extent that the Bank receives corresponding augmentation of satisfactory collateral.

Outstanding letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Most of these standby letters of credit expire within 12 months. The credit risk involved in issuing letters of credit is essentially the same as in extending comparable loans to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

The Bank did not incur any losses in 2013 or 2012 associated with financial instruments with off-balance sheet risk.

**Note 13 | Regulatory Matters**

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. The Company must meet the minimum capital requirements or face mandatory and discretionary actions by regulators that could have a direct material effect on Centric and its financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Centric's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Centric's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets.

(in thousands)

	December 31, 2013					
	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	\$ 25,133	10.96%	\$ 18,345	8.00%	\$ N/A	N/A
Bank	27,370	11.93%	18,354	8.00%	22,942	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	22,385	9.76%	9,174	4.00%	N/A	N/A
Bank	24,622	10.73%	9,179	4.00%	13,768	6.00%
Tier 1 capital (to total assets)						
Company	22,385	7.40%	12,100	4.00%	N/A	N/A
Bank	24,622	8.14%	12,099	4.00%	15,124	5.00%

(in thousands)

	December 31, 2012					
	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	\$ 24,547	12.04%	\$ 16,310	8.00%	\$ N/A	N/A
Bank	26,568	13.03%	16,312	8.00%	20,390	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	21,994	10.79%	8,153	4.00%	N/A	N/A
Bank	24,014	11.78%	8,154	4.00%	12,231	6.00%
Tier 1 capital (to total assets)						
Company	21,994	7.44%	11,825	4.00%	N/A	N/A
Bank	24,014	8.14%	11,800	4.00%	14,751	5.00%

Dividends are generally restricted by federal banking laws based upon regulatorily defined profit. The Company does not intend to declare cash dividends for the foreseeable future.

**Note 14 | Fair Value Measurements**

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels are defined as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2013 and 2012, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(in thousands)

	December 31, 2013			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	\$ -	\$ 17,319	\$ -	\$ 17,319
Municipal securities	-	2,520	-	2,520
Government sponsored mortgage-backed securities	-	15,085	-	15,085
Fair value measured on a non-recurring basis:				
Other real estate owned	-	-	1,693	1,693
Impaired loans	-	-	1,399	1,399
Securities held to maturity	-	-	798	798

(in thousands)

	December 31, 2012			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	\$ -	\$ 10,272	\$ -	\$ 10,272
Municipal securities	-	1,980	-	1,980
Government sponsored mortgage-backed securities	-	14,409	-	14,409
Fair value measured on a non-recurring basis:				
Other real estate owned	-	-	993	993
Impaired loans	-	-	3,673	3,673

**Note 14 | Fair Value Measurements** *(continued)***Impaired Loans**

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include: quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

Other Real Estate Owned

Other real estate owned is measured at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

Securities Held to Maturity

Securities held to maturity were marked to market as of December 31, 2013, as a result of impairment that was determined to be OTTI. Management separates OTTI into two categories: (a) the amount of total OTTI related to a decrease in expected cash flows to be collected (credit loss) which is recognized in earnings; and (b) the amount of OTTI related to all other factors, which is recognized, net of income taxes, as a component of other comprehensive income. The Bank recorded credit related impairment of \$22,000 on two private label mortgage-backed securities through earnings. The remaining difference between the fair value and amortized cost of \$118,000 (the difference defined as the noncredit portion) was recognized in other comprehensive income, net of applicable taxes.

The following tables present quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value on a non-recurring basis at December 31, 2013 and 2012.

		December 31, 2013				
		Quantitative Information About Level III Fair Value Measurements				
<i>(in thousands)</i>		Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 1,344	Appraisal of collateral	Appraisal adjustments	0% - 20%	6.22%	
			Liquidation expenses	0% - 15%	7.00%	
			Holding period	0 - 12 months		
Other real estate owned	1,694	Appraisal of collateral	Appraisal adjustments	0% - 20%	10.00%	
			Liquidation expenses	0% - 15%	7.00%	
Securities held to maturity	798	Discounted cash flows	Constant prepayment rate (CPR)	8%	8.00%	
			Constant default rate (CDR)	2.15% - 2.55%	2.37%	
			Discount rate	5.05% - 5.12%	5.09%	

		December 31, 2012				
		Quantitative Information About Level III Fair Value Measurements				
<i>(in thousands)</i>		Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 3,637	Appraisal of collateral	Appraisal adjustments	0% - 20%	10.00%	
			Liquidation expenses	0% - 15%	7.00%	
			Holding period	0 - 12 months		
Other real estate owned	993	Appraisal of collateral	Appraisal adjustments	0% - 20%	10.00%	
			Liquidation expenses	0% - 15%	7.00%	

**Note 15 | Fair Value of Financial Instruments**

The fair value of the Company's financial instruments is as follows:

<i>(in thousands)</i>		December 31, 2013			
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$ 19,222	\$ 19,222	\$ 19,222	\$ -	\$ -
Investments in certificates of deposits	5,995	5,995	5,995	-	-
Securities available for sale	34,924	34,924	-	34,924	-
Securities held to maturity	798	798	-	-	798
Net loans	227,454	231,385	-	-	231,385
Regulatory stock	1,081	1,081	1,081	-	-
Cash surrender value life insurance	2,941	2,941	2,941	-	-
Mortgage servicing rights and credit enhancement fees	13	49	-	-	49
Accrued interest receivable	598	598	598	-	-
Financial liabilities:					
Non-maturity deposits	\$ 175,421	\$ 175,421	\$ 175,421	\$ -	\$ -
Time deposits	92,373	92,825	-	-	92,825
Short-term borrowings	10,000	10,000	10,000	-	-
Long-term borrowings	4,207	4,209	-	-	4,209
Accrued interest payable	64	64	64	-	-

<i>(in thousands)</i>		December 31, 2012			
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	\$ 45,893	\$ 45,893	\$ 45,893	\$ -	\$ -
Investments in certificates of deposits	9,831	9,831	9,831	-	-
Securities available for sale	26,661	26,661	-	26,661	-
Securities held to maturity	929	951	-	-	951
Net loans	205,591	207,878	-	-	207,878
Loans held for sale	1,059	1,059	1,059	-	-
Regulatory stock	1,060	1,060	1,060	-	-
Cash surrender value life insurance	1,387	1,387	1,387	-	-
Mortgage servicing rights and credit enhancement fees	40	50	-	-	50
Accrued interest receivable	597	597	597	-	-
Financial liabilities:					
Non-maturity deposits	\$ 190,319	\$ 190,319	\$ 190,319	\$ -	\$ -
Time deposits	81,120	82,013	-	-	82,013
Other borrowings	6,763	6,786	-	-	6,786
Accrued interest payable	98	98	98	-	-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in current transactions using active trading markets. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas.

**Note 15 | Fair Value of Financial Instruments** *(continued)*

As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of Centric.

Centric employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Investments in Certificates of Deposits, Regulatory Stock, Cash Surrender Value Life Insurance, Accrued Interest Receivable, and Accrued Interest Payable

The fair value is equal to the current carrying value.

Investment Securities

The fair market value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans

Fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Mortgage Servicing Rights and Credit Enhancement Fees

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

Deposits and Other Borrowings

The fair values of certificates of deposits and other borrowed funds are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

These financial instruments are generally not subject to sale and estimated fair values are not readily available. The carrying value is represented by the net deferred fees arising from the unrecognized commitment or letter of credit. The fair value is determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk. Neither the carrying value nor the fair value is considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 12.

**Note 16 | Participation in U.S. Treasury Programs**

On July 14, 2011, Centric elected to participate in the U.S. Treasury's Small Business Lending Fund ("SBLF") program. With the execution of this Securities Purchase Agreement with the Secretary of the Treasury, the Company paid back the monies from its participation in Capital Purchase Program. Pursuant to the agreement, Centric sold to the Treasury 7,492 shares of senior non-cumulative perpetual preferred stock, Series C at \$1,000 liquidation value per share, for the price of \$7,492,000.

The preferred stock Series C qualifies as Tier 1 capital and pays quarterly dividends, beginning October 2011. Dividend rates are determined upon funding and for the next nine calendar quarters, adjusted quarterly (based on outstanding loans at the end of the second previous quarter). The percentage of the increase in lending determines the dividend rate. Dividend rates for the tenth quarter after funding through the end of the first 4.5 years are based on the increased lending at the end of the eighth quarter after funding. The dividend rate after 4.5 years, if the funding has not been repaid, is set at 9 percent. For both 2013 and 2012, Centric qualified for a dividend rate of 1 percent per year due to its lending growth. Under the terms of the SBLF program, with the approval of its regulator, an institution may exit the program at any time by repaying the funding provided plus any accrued dividends.

Note 17 | Subsequent Events

Management has reviewed events occurring through March 17, 2014, the date the financial statements were issued, and no subsequent events have occurred requiring accrual or disclosure.



Board of Directors



BOARD OF DIRECTORS

Standing left to right: Robert V. Gothier, Sr., CEO, RVG Management & Development Company; Steven P. Dayton, Retired, Founder and Former CEO, CODI, Inc.; Frank A. Conte, Managing Partner, Conte Wealth Advisors, LLC; Dr. Jeffrey W. Keiser, Partner & President, Forest Hills Dental Associates, PC; R. Luke Rohrbaugh, Retired, Director-Investments, Wells Fargo Advisors; Fred M. Essis, President & CEO, Essis & Sons Carpet One; Thomas H. Flowers, Certified Public Accountant, Flowers & Flowers, CPA; Kerry A. Pae, Secretary of the Board, President & Owner, Kerry Pae Auctioneers, Inc.; and Renée J. Conner, CEO/Owner, PensionPro Software, LLC.

Seated left to right: Donald E. Enders, Jr., Chairman of the Board, President, Colonial Park Realty Company, Enders Insurance Associates; Patricia A. Husic, President & CEO, Centric Financial Corporation and Centric Bank; and John A. Maher, CPA, Vice Chairman of the Board, Member, Pennsylvania House of Representatives.

LEADERSHIP TEAM

- Patricia A. Husic, President & CEO
- Jeffrey W. Myers, EVP, Chief Lending Officer
- Sandra J. Schultz, EVP, Chief Financial Officer
- Leslie A. Meck, SVP, Chief Retail Officer
- T. Wayne Stefanovich, SVP, Chief Credit Officer
- Shane E. McNaughton, SVP, Management Information Systems
- Michelle L. Carrasquillo, SPHR
VP, Human Resources Manager

COMMERCIAL LENDING TEAM

- Paul B. Zwally, SVP, Senior Commercial Lending Officer
- Donald J. Bonafede, SVP, Senior Commercial Lending Officer
- Michael J. Watson, VP, Commercial Lending
- Cheryl C. Sakalosky, VP, Commercial Lending
- Eric N. Fischer, VP, Commercial Lending

BRANCH MANAGEMENT TEAM

- Joseph M. Rebarchak, AVP
Lower Paxton Financial Center Manager
- Mary Anne E. Bayer, AVP
Silver Spring Financial Center Manager
- Vickie L. Broughton, AVP
Camp Hill Financial Center Manager
- Vicky L. LaCour, AVP
Derry Township Financial Center Manager



Centric Bank Financial Centers

Now Open!

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1201 West Governor Road
Hummelstown, PA 17036
(717) 533-7626
Fax (717) 533-7670

Lobby & Drive-Thru Hours

Monday-Thursday 8:30 a.m. to 5 p.m.
Friday 8:30 a.m. to 6:00 p.m.
Saturday 8:30 a.m. to 12 noon



Visit Our Other Convenient Locations

LOWER PAXTON FINANCIAL CENTER

4320 Linglestown Road
Harrisburg, PA 17112
(717) 657-7727
Fax (717) 657-5036

Lobby & Drive-Thru Hours

Monday-Thursday 8:30 a.m. to 5 p.m.
Friday 8:30 a.m. to 6:00 p.m.
Saturday 8:30 a.m. to 12 noon



SILVER SPRING FINANCIAL CENTER

6480 Carlisle Pike
Mechanicsburg, PA 17050
(717) 591-1360
Fax (717) 591-1363

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Monday-Thursday 8:30 a.m. to 5 p.m.
Friday 8:30 a.m. to 6:00 p.m.
Saturday 8:30 a.m. to 12 noon



CAMP HILL FINANCIAL CENTER

1625 Market Street
Camp Hill, PA 17011
(717) 730-2816
Fax (717) 730-2813

Lobby & Drive-Thru Hours

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Friday 8:30 a.m. to 6:00 p.m.
Saturday 8:30 a.m. to 12 noon



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OUR MISSION

Centric Bank is a locally owned, locally loaned community bank that provides a variety of core financial services to businesses, professionals, and individuals. We promise our customers immediate, direct access to our bank decision makers and deliver the finest personalized service in the industry. Centric has committed people and resources to enrich the communities where we live and work. Because trust is our most important commodity, we are focused on building and sustaining long-term generational relationships with our customers, our community, our employees, and our shareholders. In every transaction, *We Revolve Around You.*

OUR VISION

We aspire to become the locally owned, independent, community bank of choice for small and medium-size businesses, professionals, and individuals in central Pennsylvania. We will combine steady growth, consistent earnings, and firm control of risk factors to provide safety for our depositors. Our people will be the difference in establishing consistency in earnings and enhanced shareholder value.

CORE VALUES

We trust our principles are clear to every customer from the moment you enter our facilities or speak to a Centric Bank representative:

- We value an uncompromising dedication to understanding and meeting our clients' financial needs.
- We recognize and reward the contributions of our team members and believe that qualified, loyal, and committed professionals are our most valuable asset.
- We practice prudent business planning and cost management strategies to ensure financial viability and responsible growth.
- We embrace change and continually seek ways to provide quality, cost-effective services that meet or exceed our clients' expectations.
- We seek to establish a relationship of trust and respect with our clients and value integrity as an organization and as individuals.
- We are committed to providing the best possible service to our clients. We will go above and beyond what is required to attract and retain cherished business relationships. Our goal is to build relationships. *We Revolve Around You.*



Narratives, Numbers, and New Ground

*Powering business and communities. Growing with intention.*SM A drumbeat of confidence backed by financial integrity, it's a **narrative** that prizes relationships with our customers and neighbors above all else. Our growth continues to be focused on serving you where and when you need us.

Numbers, while fundamental to our industry, are only part of the reason we are your small business lender of choice. At Centric Bank, a home mortgage, a line of credit, or a loan to expand a retail enterprise is bolstered by earnest attention and honest advice. We're on your team as partners, guides, encouragers, and advocates.

Remaining mindful of those who first put their faith and money in Centric Bank seven years ago, we broke **new ground** in 2013: opening our fourth financial center, introducing our mobile banking app, and hiring 19 new faces. All achieved with your best financial interests at heart.

In every story, every transaction, and every new service, our promise remains: *We Revolve Around You.*

