

CFCX



UNLOCKING CAPACITY
& POTENTIAL

2018



IN A WORLD
WHERE DECISIONS
ARE MADE AT
THE SPEED
OF MARKET,
CENTRIC BANK
HAS MADE
PRESENCE
A PRIORITY.



ANNUAL REPORT

CENTRIC FINANCIAL CORPORATION

ANNUAL REPORT | 2018

Letter to Our Shareholders, Customers, and Friends	2
Intelligent Growth	4
Enhancing Communities of Commerce	6
A Community Connected	8
Financial Health and Wellness	10
A Bank with Presence	12

CENTRIC FINANCIAL CORPORATION: FINANCIAL REPORT 2018

Independent Auditor's Report	14
Consolidated Balance Sheet	15
Consolidated Statement of Income	16
Consolidated Statement of Comprehensive Income	17
Consolidated Statement of Changes in Stockholders' Equity	18
Consolidated Statement of Cash Flows	19
Notes to Consolidated Financial Statement	20
Board of Directors	48
Senior Leadership Team	49
Branch Management, Business Development, and Lending Teams ...	50
Doctor Centric Bank Advisory Board	50
Millennial Advisory Board	51
Centric Bank Financial Centers	52
Investor Relations	<i>Inside Back Cover</i>



TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:

It is said that the pace of technology has never been as fast as it is today, yet it will never be this slow again. Growing a financial institution against the winds of market fluctuations and cybersecurity threats can feel like flying in flat light—a space of no visibility, where instruments are rendered useless and triumph depends on human instinct.

From our takeoff in 2007, we have trusted those instincts and assembled a dedicated, high-performance team. We believe the people we serve are full of capacity and potential, and every new business relationship reaffirms that *understanding and caring about people is where Centric Bank thrives.*

2018 was a year of record-breaking results and system-wide digital transformation. Our story comes to life in the business owners who are expanding offices and infrastructure, reinvesting in research and innovation, and hiring their best teams. We are pushing into new territories, improving the financial health of communities, energizing entrepreneurs, teaching STEM in banking to teens, inspiring business leaders through Women Centric, educating homebuyers, and hosting our first Gen Z video competition in partnership with the American Bankers Association.

Dedicated to the success of American small business and an evolving Main Street economy, Centric Bank is delivering safer, stronger banking products and services where and when you need them, a top-ranked SBA 7(a) lending program, total revenue growth of 37%, and organic loan growth of 26%.

Adding national talent to an award-winning team of 126 people rich in leadership and inclusivity, we welcomed Timothy J. Merrell as SVP, Director of Cash Management and Treasury Services and Kimberly L. Turner as SVP, Chief Risk Officer.

Our reputation for outperformance and potential continues to spark allegiance, and on May 29, Centric Financial Corporation

completed a private placement of common stock totaling \$21 million from local investors and select institutional investors. The success of the capital raise reflects the strength of our franchise, management, and team; and we were pleased to add a number of institutional and new retail investors as shareholders.

This additional capital provided resources for Centric to meet the entrepreneurial and expansion demands of small business owners who comprise approximately 85% of our customer base; as well as undergirded organic loan growth, technological and cybersecurity advancements, and corporate commitments.

Impact and Influence

For the year ended December 31, 2018, Centric Financial Corporation reported annual results of \$8,004,000 in net income, or \$1.03 earnings per basic shares, an

WE

CELEBRATED YEAR 11 WITH A CENTRIC BANK TEAM WHO IS UNLOCKING CAPACITY FOR OUR BUSINESS CLIENTS, FINANCING UNPRECEDENTED POTENTIAL, AND DEEPLY COMMITTED TO SERVICE. OUR 'BEST BANKS TO WORK FOR' WIN WAS AN INCREDIBLE ACHIEVEMENT. WE ARE NOTHING WITHOUT THE PASSION, SPIRIT, AND DRIVE OF OUR PEOPLE.

PATTI HUSIC
PRESIDENT & CEO



DONALD E. ENDERS, JR.
Chairman of the Board



PATRICIA A. HUSIC
President & CEO

increase of \$4,260,000, or 114% over the same period as 2017. Total assets increased \$149,000,000 or 27% over December 31, 2017. We saw net growth in loans outstanding of \$128,000,000 or 26% during the last 12 months.

Total deposits grew \$101,000,000 or 21% from December 31, 2017. Total revenue grew \$10,000,000 or 37% over the 12 months ended December 2017.

Year-to-date net interest margin declined by five basis points to 3.95% compared to the same period year over year. Year-to-date Return on Average Assets was 1.22%, which was a significant increase from 0.72% for the year ended December 31, 2017.

For the year ending December 2018, non-interest income totaled \$4,434,000, an increase of \$1,255,000 or 39% over the same period 2017. The year-to-date growth in non-interest income is largely for the gain on sale of SBA and other government-guaranteed loans and is impacted by the increased dollar volume sold over prior year of \$8,234,000 or 42%. Gain on the sale of other real estate owned increased \$184,000 or 313% over the prior year-end; other fees on loans increased \$120,000 or 32% over year-end 2017; and miscellaneous income increased \$123,000 over year-end 2017.

Total assets at December 31, 2018 were \$704,396,000 compared to \$555,786,000 at December 31, 2017, an increase of \$148,610,000 or 27%. The increase is due to strong loan growth and an increase in investment securities.

Total loans for the period ended December 31, 2018 were \$625,727,000, an increase of \$129,133,000 or 26% over prior year-end. The increase in loans from the prior year is attributed to the growth in commercial and industrial loans of \$53,953,000 or 41%, and commercial real estate loans of \$70,750,000 or 23%.

Total deposits ended December 31, 2018 at \$586,185,000, an increase of \$101,351,000 or 21% over the same period 2017. The growth in deposits is attributed to non-interest bearing deposits, money market funds, and certificates of deposit.

The increase in non-interest bearing deposits was \$22,447,000 or 32% over the prior year-end. The increase in money market deposits was \$38,014,000 or 62% over prior year. The increase in both portfolios has been generated by new growth in the relationships at our financial centers and expanded commercial lending relationships. The increase in time deposits of \$60,866,000 or 30% year over year has been the combined result of new and increased financial center relationships and wholesale funding.

Shareholders' equity ended the period at \$69,773,000, an increase of \$28,208,000 or 68% from December 31, 2017. Regulatory capital ratios for the bank exceeded "well capitalized" at December 31, 2018.

Asset quality continues to be pristine. Non-performing assets to total assets was 0.41%, a decrease from the fourth quarter 2017 of 0.05%.

Making Presence a Priority

In a world where decisions are made at the speed of market, we have made presence a priority. Our 26-point *Centric Bank Way* culture initiative codifies our principles and defines our heart. Customers appreciate the refreshing in-bank experiences, our family rapport, always-on response, and our sincerity and concern for each client's business health.

In 2018, we celebrated our first *American Banker* Best Banks to Work For award—an extraordinary achievement by a team who finds purpose and meaning in deep work. Our robust growth trajectory and success in delivering on our strategic plan would not be possible without the commitment of our entire team.

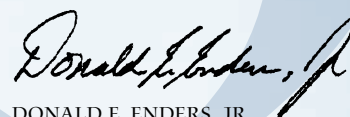
On February 21, during National Entrepreneurship Week, we held a ribbon cutting ceremony for our new 23,000 SF Executive and Operations Center in Enola, Cumberland County. Joined by our entrepreneur clients, state and local officials, chamber presidents and members, and Hampden Township veterans, we celebrated a new collaborative and innovative workplace complete with a health and wellness facility.

At year-end 2018, we opened a Philadelphia office for our commercial lending and cash management teams in Devon, Chester County. We also announced a new financial center location in Devon, across from the Devon Horse Show, a pillar of Chester County. This financial center is expected to open by the end of the third quarter 2019. Our culture and entrepreneurial DNA complement the strong work ethic and community values of this region.

Whether it's testifying before the U.S. House Small Business Committee in Washington, D.C., discussing the small business index with policymakers on a U.S. Chamber panel, or turning a Sweet Confections Cakes dream into a reality with an SBA loan, we are proud to be the voice and champion of small business.

Our promise is to revolve around you—our shareholders and customers—through every business cycle, and introduce opportunities for unexplored capacity and unrealized potential.

Thank you for your trust and loyalty as we continue to invest in technology, people, and service. Together, we are leading our communities on a path to greater prosperity for all.



DONALD E. ENDERS, JR.
Chairman of the Board



PATRICIA A. HUSIC
President & CEO



INTELLIGENT GROWTH

Centric Bank's premier strategic goal is to meet small business needs in entrepreneurial, high-potential regions. Our board and executive leadership team are committed to smart growth and creating new opportunity zones to fuel job creation and American enterprise.

"As we enter our twelfth year of community banking and crest \$705 million in asset size, we see a bright future. Our teams are finding new efficiencies for customers, digging into market data to help prepare companies for the future, and managing risk and growth. Driven by an innovative mindset, our *Centric Bank Way* culture allows employees the freedom to push back on stale practices, to challenge each other with *what ifs*, and to think beyond transactions. We spend in-person time with our customers every day," says Husic.

Focused on a unified user experience (UUX) and micro-personalization, Clair Finkenbinder III, Chief Information Officer and Director of Operations, led a core processing conversion with zero disruption to the customers. "We deployed digital Signature pads and eSign to streamline customer account opening processes and introduced nCino, a new commercial lending platform that vastly improves service and decreases time-to-market for commercial customers," says Finkenbinder. Commercial loans appear on an internal dashboard for immediate visualization and access to data in the life cycle of the loan. "Our improved disaster recovery capabilities ensure our customer data is secure and protected at all times. Data is continuously replicated throughout the day currently providing a Recovery Point Objective of less than one minute," he says.

"With an emphasis on IT and a digital-first strategy, we ensure our employees have the best tools and resources to deliver extraordinary service. Our leaders and lenders bring fresh business insights and financial opportunities to the small business lending table. We serve the

growing business needs of entrepreneurs, physicians, and CEOs from Doylestown to Devon, and Camp Hill to Chambersburg. Whether it's a medical practice, an authentic Mexican restaurant, or an artisan jeweler, our team is unlocking capacity and financing potential," says Husic.

In December, the *Philadelphia Business Journal* highlighted "Central Pa. bank adds locations on the Main Line" announcing our entrance into Chester County. With existing locations in Bucks and Lancaster counties, the Main Line presence is a natural extension of our footprint. Led by Christopher J. Bickel, SVP, Main Line Market Leader, the team includes two commercial lenders with plans to add more, Timothy J. Merrell, SVP, Director of Cash Management and Treasury Services, and his team, as well as a business development group.

"A hometown team is critical to strengthening relationships in the community with our principles of *We Revolve Around You*. As we expand our services in the greater Philadelphia region, Chris Bickel, a strong, experienced leader within Centric Bank and a Berwyn native, is building essential partnerships with the business community," says Husic.

Kimberly L. Turner, MBA, JD, was hired as the bank's first Chief Risk Officer to oversee risk management and organizational compliance. "As Centric Bank continues its legacy of developing and maintaining strong risk management, Kimberly's extensive financial experience and deep understanding of sound risk management and compliance practices are integral to our ability to expand and better serve the lending needs of entrepreneurs and small businesses in our markets," says Husic. "We are honored to attract such high-level national talent and add to our award-winning leadership team in the C-suite."

THE

PEOPLE WHO SERVE
ARE THE HEART OF
OUR BANK AND THE
PEOPLE WE SERVE ARE
LEADING, CHANGING,
AND BUILDING
BRIGHTER FUTURES. WE
HAVE AN ATTRACTIVE
GROWTH STORY, AND
IT'S DEEPLY ROOTED IN
THE COMMUNITIES WE
CALL HOME.

PATTI HUSIC
PRESIDENT & CEO

Centric Bank was touring Artisan Exchange, a shared kitchen that we leased, when one of the bankers introduced herself. Within a week, we met and started the process of an SBA loan and a credit line. Every time we call, the staff is super courteous, always able to take care of our requests, and follows up with a phone call to make sure we're satisfied.

OLGA AND TROY SORZANO, OWNERS
BABA'S BREW
PHOENIXVILLE, PA





ENHANCING COMMUNITIES OF COMMERCE

Proud to be honored with a three-time Best Places to Work and six-time Top 50 Fastest Growing Companies award, the Centric Bank team was ecstatic to be recognized as a 2018 American Banker Best Banks to Work For.

Unlocking capacity and potential includes an investment in our 126-member workforce. The Make Healthy Choices Fair, Employee Appreciation Picnic, and Centric Bank Way weekly emails fortify the brand and affirm the value of each employee. An Employee Assistance Program was also added to support employees and their families during challenging experiences. "Our team talks the talk and walks the walk," says Christine Pavlakovich, SVP, Director of Human Resources. With an admirable employee retention rate of 90%, the Centric family is 60% female, 37% Baby Boomer, 34% Gen X, and 29% Millennial. Teaching financial literacy, exploring STEM in banking, and increasing participation in college job fairs across the state, Centric is attracting a diverse, committed workforce.

As the chief brand ambassador, Patti Husic advocates for small business in national, statewide, and neighborhood conversations, and the entire leadership team looks for opportunities to share the We Revolve Around You story. On January 17, Patti testified to the U.S. Committee on Small Business in Washington, D.C. in support of strengthening SBA's 7(a) program: "I was honored to testify to legislators and policymakers about the profound, life-changing benefits of SBA loans. Pennsylvania has nearly 1 million small business owners, and we are their bank of potential."

As of September 30, 2018, Centric Bank ranked #6 in SBA 7(a) loan volume in the Eastern District, a region serving 40 of the Commonwealth's 67 counties. The bank awarded 49 SBA 7(a) loans totaling \$28,203,000 with an average loan size of \$575,571. SBA loans continue to drive economic growth with industry

concentrations in accommodation and food services (22.5%), manufacturing (15%), and arts, entertainment, and recreation (12.9%). In March, Patti joined SBA Administrator Linda McMahon on a U.S. Chamber of Commerce panel discussing the Small Business Index.

In April, Patti and Appalachian Brewing Company (ABC) hosted the Administrator on a private tour where she and her team saw firsthand the impact of Centric's SBA lending power. "Most small businesses fail because they're undercapitalized, and our Centric Bank lenders here were actually talking about how they provide advice and counsel so they can help small businesses grow," said SBA Administrator McMahon to the media.

Positioning Centric Bank as a national talent magnet for rising female bankers strengthens the brand story and enhances shareholder value. Patti Husic was recognized for the fourth consecutive year as one of the 25 Most Powerful Women in Banking in the U.S. by American Banker. "High performance is not the only factor we consider when choosing women for this list. Initiatives like Women Centric: Prepared to Lead, which Patti developed to facilitate getting more women in the local business community on company boards, demonstrate her commitment to driving positive change beyond the bank," says Bonnie McGeer, Executive Editor of American Banker and Chair of the Most Powerful Women in Banking and Finance program.

CULTURE

ISN'T JUST ONE ASPECT OF THE GAME, IT IS THE GAME. IN THE END, AN ORGANIZATION IS NOTHING MORE THAN THE COLLECTIVE CAPACITY OF ITS PEOPLE TO CREATE VALUE.

LOUIS V. GERSTNER, JR. FORMER CEO OF IBM

114%

increase in net income

26%

net growth in loans

27%

increase in assets to \$704,396,000



When we decided to open a restaurant of our own, a business colleague recommended Centric Bank. They not only worked diligently to provide a financing package to meet our needs, they also became a strong advocate of our restaurant, Lumbrada. Tania Fleming was helpful, patient, and understanding as we started our business. Centric Bank is a partner in our success. We would recommend them to any business owner.

DANIEL AND ANSELMO TORRES, OWNERS
LUMBRADA COCINA MEXICANA
WAYNE, PA



41%

increase in commercial and industrial lending

21%

increase in deposits

#24

Patti Husic recognized as an American Banker Most Powerful Women in U.S. Banking

As former Chair of PA Bankers and founder of the Women in Banking initiative for the association, Patti was proud to present the Patricia A. Husic Woman of Influence award to an aspiring female banker at the 2018 conference. A commitment to diversity and inclusion begins in the C-suite, and “See one to be one” is the most successful driver to advance equity in the workplace. With a 60% female executive team, the leadership models inclusion through informal mentoring, as well as deep engagement in community, educational, and business events. “Talent acquisition is how we will continue to excel. We hire the best and the brightest who bring diversity of ideas, opinions, and experiences. You can’t outwork or outlearn a Centric Bank team member,” says Husic.

WE HIGHLY RECOMMEND CENTRIC BANK FOR ANYONE CHASING THEIR DREAMS! WE TALKED TO NUMEROUS BANKS ABOUT OBTAINING A LOAN TO OPEN DESPERATE TIMES BREWERY, BUT CENTRIC BANK WAS THE ONLY BANK WILLING TO HELP US. WE ARE NOW ON OUR THIRD YEAR OF OPERATIONS, AND THE TEAM HAS BEEN GREAT TO WORK WITH EVERY STEP OF THE WAY.

MATT DUNN, OWNER
DESPERATE TIMES BREWERY
CARLISLE, PA

A COMMUNITY CONNECTED

Findings from a recent PwC Consumer Intelligence Series (CIS) survey of 15,000 global consumers confirms what our Centric Bank team already knows: the human touch still matters. Seventy-five percent of survey respondents reported they want more human interaction in the future, not less. We believe that regardless of how robust your online interface, how nimble your mobile app, or how sophisticated your VoIP system is, customers want to know there’s a person on the other side of the screen.

In fact, Centric Bank’s 17-person Millennial Advisory Board sees financial centers shifting away from being mere transactional locations and toward becoming community centers and gathering places.

Digitization matters, but personalization is still king. It’s the power of personal relationships that has propelled 26% organic loan growth, a 21% increase in total deposits, and a 37% increase in total revenue. Centric’s banking experience and services are propelling business owners to relevance, success, and prosperity.

Beyond deposits and loans, Centric is connecting with Gen Z, a new generation of customers. At a recent presentation, Patti Husic encouraged a roomful of Milton Hershey School students: “We need problem solvers and risk takers. We need young people who want to change the world and put their curiosity to work for others. We need big thinkers!”

BEST BANKS *to* WORK FOR 2018



We were looking to purchase a commercial property for our bakery and our realtor suggested Centric Bank. Throughout the process, they offered personal, intimate assistance. Working with a community bank gave us the opportunity to get to know our banker and build a relationship.

DARMAYNE & ROBBIE ROBERTSON, OWNERS
SWEET CONFECTIONS CAKES, INC.
HARRISBURG, PA



WHEN MY PARTNERS AND I HAD A VISION TO GROW OUR DENTAL OFFICE INTO A PREMIER DENTAL HEALTH CARE SYSTEM, WE REALIZED WE NEEDED MORE THAN A BANK. WE NEEDED A PARTNER. WE CHOSE CENTRIC BANK BECAUSE WE FELT THEIR CORE VALUES MATCHED OUR OWN. EVERYONE WE HAVE DEALT WITH, FROM CEO PATTI HUSIC TO THE TELLERS AT OUR LOCAL FINANCIAL CENTER, HAS HELPED US SUCCESSFULLY PURCHASE REAL ESTATE, BUILD OUT OFFICES, AND OPEN SIX NEW PRACTICES IN THE LAST 18 MONTHS. CENTRIC HAS DONE MORE THAN JUST TAKE CARE OF OUR BANKING, THEY HAVE PROVIDED THE SUPPORT, GUIDANCE, AND CREATIVE SOLUTIONS TO MEET DAILY CHALLENGES.

MICHAEL C. VERBER, DMD, FICOI
CEO & PRESIDENT
VERBER DENTAL GROUP
CAMP HILL, PA

FINANCIAL HEALTH AND WELLNESS

As investments in health and wellness increase quality of life and economic vitality, Doctor Centric Bank continues to expand financial services to health care professionals and meet the unique banking needs of the medical community. For private practices, organizations, and health care institutions, Doctor Centric Bank provides turnkey services in practice expansion, equipment acquisition, facility purchase, technology upgrades, buy-ins and buy-outs, as well as highly personalized banking at the convenience of medical professionals.

“When the complexity of the business of health care overshadows opportunities for practices to grow and expand services, Doctor Centric Bank provides capital and a private concierge banking solution,” says Husic.

“Dr. Brian Sowatsky and I were engaged with a large, multi-state Dental Service Organization which was in the process of reducing its assets. We were approached to

consider the purchase of the Pennsylvania portion of the operation—a segment consisting of multiple dental practices.

“When we were introduced to Michael Watson and Bruce Straub, it was clear from the very first meeting that we shared an excellent rapport. Over the next months, we faced numerous challenges and obstacles that seemingly had no solution; but through Doctor Centric Bank’s leadership and teamwork, a transaction financing option was created to meet our needs,” says Dr. Thomas Dudas, Jr., CEO of D/S Dental.

In February, Doctor Centric Bank entered into an exclusive endorsed financing partnership with the Pennsylvania Dental Association and Pennsylvania Dental Association Insurance Services. “Centric Bank was chosen based on their leadership in the medical concierge banking marketplace, their deep understanding of dental practice financing, and on the strength of their reputation for small business lending,” says Camille Kostelac-Cherry, Esq., CEO of the Pennsylvania Dental Association.



THE RELATIONSHIPS WE FORMED WITH CENTRIC BANK OVER THE COURSE OF OUR JOURNEY HAVE BEEN REMARKABLE. THEIR FINANCIAL SOLUTION HAS PUT OUR COMPANY ON A PATH TO BECOMING MORE SIGNIFICANT IN THE COMMUNITIES WE SERVE AND IS ALLOWING US TO PURSUE PERSONAL AND PROFESSIONAL GOALS THAT MOST PEOPLE CALL DREAMS.

THOMAS P. DUDAS, JR., DMD, CEO & BRIAN D. SOWATSKY, DDS, PRESIDENT
D/S DENTAL MANAGEMENT, LLC
LANCASTER, PA

From our initial contact and prequalification phase with Sean Burns at Centric Bank, we were reassured we chose the right bank to guide our family through the commercial lending process. As extremely hands-on business owners in all of our ventures, we truly appreciate being treated with the same level of courtesy and service we extend to our customers. This is a lost art in today's world, but not at Centric Bank! Engaging with a bank that appreciates your business and guides you through every step is invaluable. Their lending process exceeded our expectations, and we are now securing our third loan with Sean in a little over one year.

TODD AND GAYLE RINDFUSS, FRANCHISE OWNERS
DUCK DONUTS
KING OF PRUSSIA, PA & COLLEGEVILLE, PA

DUCK DONUTS

DELICIOUS MADE TO ORDER!





#1

Financing partner for Pennsylvania Dental Association

#6

SBA 7(a) lender by volume in Pennsylvania

A BANK WITH PRESENCE

Giving back for Centric Bank is personal and carries meaning well beyond check donations and media mentions. Being present means a fully engaged team donating time, leadership, and resources to more than 120 organizations for a total impact exceeding \$140,000. It's sleeves-rolled-up time from the CEO to the interns.

The diversity of organizations Centric champions illustrates a deep passion for service. For example, the team supported the American Heart Association Capital Region, Girls on the Run Capital Area, YWCA Bucks County and Greater Harrisburg, Feel Your Boobies Foundation, Salvation Army WIN, Central Pennsylvania Food Bank, Susquehanna SCORE, Hospice of Central PA, AJ Foundation for Children with Autism, and Children's Charity of the Delaware Valley. There were 21 Dress Down Days with participation across all financial centers. "It doesn't get more organic than making sure a family has food and shelter or the underserved have access to free health screenings," says Husic.

Displaying financial presence in 2018 with a record third quarter net income of \$2.4 million, the bank also expanded their presence through awards, achievements, and traditional and social media stories. Sandie Schultz, CFO, was named a Woman of Influence by the *Central Penn Business*

Journal, as well as a YWCA Tribute to Women of Excellence recipient. Centric hosted three Women Centric: Prepared to Lead events on topics including how to navigate fierce conversations, how to build powerful relationships, and how to become a more purposeful leader. Women Centric is committed to being the catalyst for community, professional, and economic growth in Centric Bank service areas. In addition, Patti Husic was featured in *Susquehanna Style's* Women of Style and on Women@Work with CBS 21 News anchor Jasmine Brooks.

"We're privileged to work in regions that are defined by hard work ethics, a spirit of enterprise, a heart of compassion, and a belief in service to others—this is our creed boldly displayed throughout our culture," says Husic. "As our banking becomes increasingly digitized, you will always have a trusted friend and loyal partner with the individual on the other side of the screen, keypad, or app. In an era of now service, we promise to stand out with presence."

#7

Top 50 Fastest Growing Companies



AFTER I GRADUATED FROM OPTOMETRY SCHOOL, MY HUSBAND AND I WERE READY TO BUILD OUR FOREVER HOME. CENTRIC BANK WAS THE ONLY LOCAL BANK THAT OFFERED A CONSTRUCTION LOAN AS PART OF A PROGRAM FOR RECENT PHYSICIAN GRADUATES. AS FIRST-TIME HOMEBUYERS, WE THOUGHT THE FINANCIAL PROCESS COULD BE COMPLICATED; HOWEVER, GETTY WILSON WAS ABLE TO SIMPLIFY EVERYTHING, CONFIDENTLY ANSWER OUR QUESTIONS, AND MAKE HERSELF READILY AVAILABLE. CENTRIC BANK HAS EXCEEDED OUR EXPECTATIONS!

LOGAN O'NEAL, O.D. AND ERIC O'NEAL
FIRST-TIME HOMEBUYERS
HARRISBURG, PA

EVERY POST TELLS A STORY AND CENTRIC BANK'S DIGITAL AND COMMUNICATIONS STRATEGY EMPHASIZES BUILDING CONNECTIONS WITH COMMUNITIES, SMALL BUSINESS OWNERS, AND FUTURE BANKING CUSTOMERS. VISIT US ON FACEBOOK, INSTAGRAM, LINKEDIN, TWITTER, AND YOUTUBE TO SEE OUR PASSION FOR MAKING A DIFFERENCE.

centric_bank • Follow

centric_bank #CentricBank was host day 3 of the Next Geners Academy, a one-week learning for college students interested in understanding more about consumer financial services. Today's focus: business of consumer and lending. #NGBA2018 #CentricBank #WeRevolveAroundYou #FinancingNewFrontiers #tagtag Reaching out to the Community

centric_bank • Follow

centric_bank "I'm very passionate about #CentricBank and working with entrepreneurs. That's one of the fun things we do day-in and day-out--helping people's dreams come true," says Patti Husic in an interview with @jasminbrookstv and @whptv. #WomenatWork #WeRevolveAroundYou

Centric Bank
727 followers
Empo

The #CentricBank Way fundamental #25 is "KEEP THINGS FUN," and that's exactly what we are up to today at Employee Appreciation Day!

Centric Bank • 28 Mar 2018

#CentricBank is committed to our community and thankful for the opportunity to give back in times of need. @PattiHusicCEO learned that @downtowndread was in need of hams to feed the homeless for #Easter and immediately arranged a delivery for this morning. #CommunityMatters

#CentricBank 29w

"WE ARE HONORED TO BE RECOGNIZED AS #43 ON THIS ESTEEMED LIST," SAYS PATTI HUSIC.

Best Banks to Work For 2018

#AMERICANBANKER

centric_bank • Follow

centric_bank Members of our #CentricBank team were thrilled to attend the @salarmyhg 2018 Annual Civic Event last night. Attendees joined @grahammetric in celebrating science at the @gradsonorhg. #15Arckscience #DoingTheMostGood #CommunityMatters #WeRevolveAroundYou Jennifer Epstein @jenniferbauer I know that guy!

gallitogallo Hey, @jbuell441 @buell441 I was indeed there. Great time and great people doing great things in our community 🙌

13 likes
APR 18, 2018

INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
CENTRIC FINANCIAL CORPORATION
HARRISBURG, PENNSYLVANIA

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Centric Financial Corporation and subsidiary which comprise the consolidated balance sheets as of December 31, 2018 and 2017; 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 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, 2018 and 2017, 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.



Cranberry Township, Pennsylvania
February 26, 2019

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	December 31,	
	2018	2017
ASSETS		
Cash and due from banks	\$ 6,181	\$ 4,697
Interest-bearing deposits in other banks	3,769	1,697
Federal funds sold	26,358	24,929
Cash and cash equivalents	36,308	31,323
Investments in certificates of deposits	1,488	749
Securities available for sale	21,055	7,918
Securities held to maturity, fair value of \$6,569 and \$7,264	6,001	6,536
Loans	625,727	496,594
Less: allowance for loan losses	6,913	5,888
Net loans	618,814	490,706
Loans held for sale	848	285
Accrued interest receivable	1,993	1,506
Premises and equipment, net	6,439	6,738
Regulatory stock	1,949	1,154
Cash surrender value life insurance	4,085	3,973
Mortgage servicing rights	1,719	1,264
Goodwill	492	492
Other assets	3,205	3,142
TOTAL ASSETS	\$ 704,396	\$ 555,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 93,685	\$ 71,238
Interest-bearing	492,500	413,596
Total deposits	586,185	484,834
Short-term borrowings	15,500	5,500
Long-term debt	30,500	21,670
Accrued interest payable	511	233
Other liabilities	1,927	1,984
Total Liabilities	634,623	514,221
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par; 12,000,000 shares authorized; 8,714,975 and 6,380,653 shares issued and outstanding in 2018 and 2017, respectively	8,715	6,381
Additional paid-in capital	45,921	28,186
Retained earnings	15,219	7,179
Accumulated other comprehensive loss	(82)	(181)
Total Stockholders' Equity	69,773	41,565
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 704,396	\$ 555,786

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except share and per share data)	Year Ended December 31,	
	2018	2017
INTEREST INCOME		
Interest and fees on loans	\$ 31,153	\$ 23,042
Interest and dividends on securities	643	524
Interest-bearing deposits in other banks	82	28
Federal funds sold	715	204
Total interest income	32,593	23,798
INTEREST EXPENSE		
Interest on deposits	5,913	3,014
Interest on borrowings	1,507	825
Total interest expense	7,420	3,839
Net interest income	25,173	19,959
Provision for loan losses	1,430	1,396
Net interest income after provision for loan losses	23,743	18,563
NONINTEREST INCOME		
Service charges on deposit accounts	305	241
Other loan fees and servicing income	1,007	612
Net gain on sale of loans	2,253	1,931
Earnings on cash surrender value of life insurance	112	117
Gain (loss) on sale of other real estate owned	125	(59)
Gain (loss) on disposal of other assets	11	(41)
Other income	621	378
Total noninterest income	4,434	3,179
NONINTEREST EXPENSE		
Salaries and employee benefits	10,341	8,663
Occupancy and equipment	1,956	1,483
Legal and professional fees	529	494
Data processing	1,012	895
Advertising and marketing	565	516
Shares tax	525	411
Directors expense	155	170
Federal deposit insurance	348	346
Other expenses	2,733	2,025
Total noninterest expense	18,164	15,003
Income before income tax expense	10,013	6,739
Income tax expense	2,009	2,995
NET INCOME	\$ 8,004	\$ 3,744
PER SHARE DATA		
Basic earnings per share	\$ 1.03	\$ 0.59
Diluted earnings per share	\$ 1.02	\$ 0.59
Average shares outstanding (basic)	7,773,912	6,354,664
Average shares outstanding (diluted)	7,814,419	6,369,686

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands)	December 31,	
	2018	2017
NET INCOME	\$ 8,004	\$ 3,744
Other comprehensive income (loss):		
Unrealized holding gains on available-for-sale securities	102	-
Tax effect	(21)	-
Accretion of discount on securities transferred to held to maturity	58	29
Tax Effect	(12)	(10)
Accretion of non-credit OTTI on held-to-maturity securities	10	10
Tax effect	(2)	(4)
Total other comprehensive income	135	25
COMPREHENSIVE INCOME	\$ 8,139	\$ 3,769

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	\$ 6,338	\$ 28,104	\$ 3,435	\$ (206)	\$ 37,671
Net income			3,744		3,744
Other comprehensive income				25	25
Stock-based compensation plans:					
Issuance of restricted stock (30,424 shares)	31	(31)			-
Restricted stock - compensation expense		48			48
Stock options - compensation expense		8			8
Stock options exercised (7,444 shares)	8	33			41
Issuance of Employee Stock Purchase Plan (4,295 shares)	4	24			28
Balance, December 31, 2017	6,381	28,186	7,179	(181)	41,565
Net income			8,004		8,004
Reclassification of certain income tax effects from accumulated other comprehensive income			36	(36)	-
Other comprehensive income				135	135
Stock-based compensation plans:					
Issuance of restricted stock (10,123 shares)	10	(10)			-
Forfeiture of restricted stock (2,000 shares)	(2)	2			-
Restricted stock - compensation expense		71			71
Stock options - compensation expense		20			20
Stock options exercised (44,388 shares)	44	202			246
Issuance of Employee Stock Purchase Plan (6,811 shares)	7	36			43
Issuance of common stock (2,275,000 shares)	2,275	17,414			19,689
Balance, December 31, 2018	\$ 8,715	\$ 45,921	\$ 15,219	\$ (82)	\$ 69,773

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Years Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 8,004	\$ 3,744
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan losses	1,430	1,396
Depreciation and amortization	1,248	1,198
Stock-based compensation	91	56
Deferred income tax expense (benefit)	(403)	199
Loans originated for sale	(50,553)	(43,779)
Proceeds from sale of loans	52,243	46,118
Net gain on sale of loans	(2,253)	(1,931)
Increase in accrued interest receivable	(487)	(354)
Increase in accrued interest payable	278	95
Earnings on cash surrender value of life insurance	(112)	(117)
Net (gain) loss on sale of other real estate owned	(125)	59
Other, net	(596)	79
Net cash provided by operating activities	8,765	6,763
Cash flows from investing activities		
Net (increase) decrease of investment certificates of deposits	(739)	250
Maturities and principal pay downs of available-for-sale securities	1,891	1,668
Maturities and principal pay downs of held-to-maturity securities	605	538
Purchases of available-for-sale securities	(14,950)	-
Purchases of held-to-maturity securities	-	(1,000)
Purchases of regulatory stock	(3,058)	(3,079)
Redemption of regulatory stock	2,263	3,155
Net increase in loans	(130,105)	(71,118)
Purchases of bank premises and equipment	(209)	(459)
Proceeds from disposal of other real estate owned	363	186
Net cash used for investing activities	(143,939)	(69,859)
Cash flows from financing activities		
Net increase in deposits	101,351	64,826
Net increase (decrease) in short-term borrowings	10,000	(7,500)
Proceeds from long-term debt	9,000	15,500
Payments on long-term debt	(170)	(3,203)
Stock options exercised	246	41
Net proceeds from issuance of common stock	19,732	28
Net cash provided by financing activities	140,159	69,692
Net increase in cash and cash equivalents	4,985	6,596
Cash and cash equivalents at beginning of period	31,323	24,727
Cash and cash equivalents at end of period	\$ 36,308	\$ 31,323
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 7,142	\$ 3,744
Income taxes	2,620	2,950
Supplemental schedule of noncash investing and financing activities:		
Other real estate acquired in settlement of loans	-	568

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 comprises most of Centric’s ongoing operations. The Bank offers customers a range of deposit, loan, and other services typical of community banks through four full service offices in south central Pennsylvania, and two loan production offices in Bucks and Lancaster Counties, as well as online banking channels. The Bank’s principal sources of revenue is interest income generated from the portfolio of commercial and residential real estate loans, commercial loans and consumer loans, income from the generation and subsequent sale of loans, as well as interest income generated from the 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 significant 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 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 impaired loans, allowances for loan and other credit losses, 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 is required to maintain average balances with the Federal Reserve Bank, the required minimum balance was \$845,000 and \$907,000 at December 31, 2018 and 2017, respectively. The Bank is 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 for regulatory reporting only. 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.

Credit Risk Concentrations

As a community bank, most of Centric’s loans and credit commitments are comprised of Pennsylvania customers, primarily individuals and entities situated in Dauphin, Cumberland, Lancaster, and Bucks counties. Because of the Bank’s concentration of business in these market areas, the Company’s financial condition and results of operations, depend on the general economic conditions in the aforementioned immediate geographic regions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (Continued)

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 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.

The Bank engages in lease financing for commercial customers to purchase equipment or vehicles. Leases are stated at their outstanding unpaid principal balances, net of any deferred costs, residual receivable and unearned income. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (Continued)

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, 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.

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 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 a valuation allowance 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 letters of credit, is included in other liabilities.

Regulatory Stock

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (Continued)

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 and letters of credit 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 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. The Company utilizes a two-step process for testing the impairment of goodwill on at least an annual basis. For federal tax purposes, goodwill is amortized on a straight-line basis over 15 years. There was no impairment of goodwill as of December 31, 2018 or 2017.

Mortgage Servicing Rights and Credit Enhancement Fees

The Bank previously 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 continues to service the portfolio sold to the FHLB and receives corresponding fees. MPF portfolio fees earned amounted to \$5,000 and \$7,000 during 2018 and 2017. The MPF portfolio balance was \$1,213,000 and \$1,553,000 at December 31, 2018 and 2017, respectively. The FHLB maintains a first-loss position for the MPF portfolio that totals \$315,000. Should the FHLB exhaust its first-loss position, recourse to the Bank’s credit enhancement would cover the next \$8,000 of losses. The Bank has not experienced any losses for the MPF portfolio. There were no credit enhancement fees receivable, net of an estimated liability, at December 31, 2018 or 2017.

The Bank sells the guaranteed portion of Small Business Administration (SBA) approved loans. The loans are serviced by the Bank and generate corresponding mortgage servicing rights. The portfolio balance of SBA loans generating mortgage servicing rights was \$77,234,000 and \$57,617,000 at December 31, 2018 and 2017, respectively. Additionally, they are subject to an impairment analysis based on their fair value in future periods. The Bank did not record any impairment of the mortgage servicing assets in 2018 or 2017. The mortgage servicing rights balance at December 31, 2018 and 2017 and the activity that occurred during the year consisted of the following:

(in thousands)	2018	2017
Beginning balance	\$ 1,264	\$ 995
New mortgage servicing rights	594	463
Amortization of mortgage servicing rights	(139)	(194)
Ending balance	<u>\$ 1,719</u>	<u>\$ 1,264</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (Continued)

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.

Advertising and Marketing Costs

The Bank charges advertising costs to expense as incurred.

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.

Options and warrants to purchase, 1,261 and 23,074 shares of common stock, at a weighted-average price of \$11.55 and \$7.02, outstanding at December 31, 2018 and 2017, respectively; and unvested restricted shares of 9,421 and 8,154 at December 31, 2018 and 2017, at a weighted-average price of \$10.32 and \$6.11, respectively, were not included in dilutive earnings per share because the result would be anti-dilutive.

(in thousands, except per share data)	2018	2017
Net income	\$ 8,004	\$ 3,744
Weighted average number of shares outstanding (basic)	7,773,912	6,354,664
Effect of dilutive securities	40,507	15,022
Weighted average number of shares outstanding (diluted)	7,814,419	6,369,686
Per share information:		
Basic earnings per share	\$ 1.03	\$ 0.59
Diluted earnings per share	\$ 1.02	\$ 0.59

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) as an increase or deduction from income tax expense. During 2018 and 2017, \$246,000 and \$41,000 in stock options were exercised, with a tax benefit of \$53,000 and \$2,000, respectively. No warrants were exercised during 2018 or 2017.

Accumulated Other Comprehensive 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (Continued)

Such items are included as components of accumulated other comprehensive loss, as follows, net of taxes:

(in thousands)	2018			2017		
	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	\$ (103)	\$ (78)	\$ (181)	\$ (103)	\$ (103)	\$ (206)
Other comprehensive income (loss) before reclassifications	81	54	135	-	25	25
Reclassification of certain income tax effects from accumulated other comprehensive income	(22)	(14)	(36)	-	-	-
Net current-period other comprehensive income (loss)	60	39	99	-	25	25
Ending balance	\$ (44)	\$ (38)	\$ (82)	\$ (103)	\$ (78)	\$ (181)

There were no amounts reclassified out of any components of accumulated other comprehensive loss for 2018 or 2017. 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 loss, net of related deferred income taxes.

Note 2 | Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Update ASU 2014-09 Revenue from Contracts with Customers – Topic 606 and all subsequent ASUs that modified ASC 606. The Company has elected to apply the standard to all prior periods presented utilizing the full retrospective approach. The implementation of the new standard had no material impact to the measurement or recognition of revenue of prior periods. Management determined that the primary sources of revenue emanating from interest income on loans and investments along with noninterest revenue resulting from net gain on sale of loans, other loan fees and servicing income, and earnings of cash surrender value of life insurance are not within the scope of ASC 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 98.8 percent of the total revenue of the Company. The main types of noninterest income within the scope of the standard are as follows:

Service charges on deposit accounts

The Company has contracts with its deposit customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, cycle service fees, online banking fees, interchange fees, ATM fees and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

Gain (loss) on sale of other real estate owned and other assets

Gains and losses are recognized at the completion of the sale when the buyer obtains control of the real estate and all of the performance obligations of the Company have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilitate the sale, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred, payment terms, and that the contract has a true commercial substance and that collection of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 | Revenue Recognition (Continued)

amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset.

The Company determined that the level of disaggregation of revenue as reported on the Consolidated Statement of Income provided a sufficient level of detail in order to properly analyze the significant revenue streams of the Company and therefore no further disaggregation of any revenue streams within the scope of ASC 606 was considered to be necessary.

Note 3 | Investment Securities

A summary of securities available for sale is as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. government agency securities	\$ 3,991	\$ 8	\$ (28)	\$ 3,971
Government sponsored mortgage-backed securities	17,119	143	(178)	17,084
Total	\$ 21,110	\$ 151	\$ (206)	\$ 21,055
December 31, 2017				
U.S. government agency securities	\$ 2,500	\$ -	\$ (26)	\$ 2,474
Government sponsored mortgage-backed securities	5,575	5	(136)	5,444
Total	\$ 8,075	\$ 5	\$ (162)	\$ 7,918

A summary of securities held to maturity is as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Municipal securities	\$ 1,642	\$ 12	\$ (2)	\$ 1,652
Other debt securities	4,000	519	-	4,519
Private collateralized mortgage obligations	359	39	-	398
Total	\$ 6,001	\$ 570	\$ (2)	\$ 6,569
December 31, 2017				
Municipal securities	\$ 2,082	\$ 75	\$ -	\$ 2,157
Other debt securities	4,000	611	-	4,611
Private collateralized mortgage obligations	454	42	-	496
Total	\$ 6,536	\$ 728	\$ -	\$ 7,264

Securities with a fair value of \$21,051,000 and \$7,914,000 were pledged to collateralize bank deposits by Pennsylvania local governments and the discount window as of December 31, 2018 and 2017, respectively.

No securities were sold during 2018 or 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 | Investment Securities (Continued)

The amortized cost and fair value of debt securities owned at December 31, 2018, by contractual maturity, are shown below:

(in thousands)	Available for Sale		Held to Maturity	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Due in one year or less	\$ 1,000	\$ 988	\$ -	\$ -
Due after one year through five years	4,103	4,101	240	240
Due after five years through ten years	1,941	1,866	4,737	5,268
Due after ten years	14,066	14,100	1,024	1,061
Total investment securities	<u>\$ 21,110</u>	<u>\$ 21,055</u>	<u>\$ 6,001</u>	<u>\$ 6,569</u>

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

(in thousands)	Less than 12 Months		12 Months or Greater		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	December 31, 2018					
U.S. government agency securities	\$ -	\$ -	\$ 1,972	\$ (28)	\$ 1,972	\$ (28)
Government sponsored mortgage-backed securities	164	(1)	3,928	(177)	4,092	(178)
Municipal securities	250	-	183	(2)	433	(2)
Total temporarily impaired securities	<u>\$ 414</u>	<u>\$ (1)</u>	<u>\$ 6,083</u>	<u>\$ (207)</u>	<u>\$ 6,497</u>	<u>\$ (208)</u>
	December 31, 2017					
U.S. government agency securities	\$ 495	\$ (5)	\$ 1,979	\$ (21)	\$ 2,474	\$ (26)
Government sponsored mortgage-backed securities	223	(1)	4,606	(135)	4,829	(136)
Total temporarily impaired securities	<u>\$ 718</u>	<u>\$ (6)</u>	<u>\$ 6,585</u>	<u>\$ (156)</u>	<u>\$ 7,303</u>	<u>\$ (162)</u>

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 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. For the year ended December 31, 2018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 | Investment Securities (Continued)

and 2017, Centric did not record any credit-related impairment. There were 34 securities that were temporarily impaired at December 31, 2018.

Changes in credit losses during 2018 and 2017 associated with investment securities for which other-than-temporary impairment losses have been previously recognized in both earnings and other comprehensive income follows:

(in thousands)	Year Ended December 31,	
	2018	2017
Estimated credit losses - beginning balance	\$ 452	\$ 452
Additions for credit losses not previously recognized	-	-
Reductions for payment differences	-	-
Reductions for realized losses	-	-
Estimated credit losses - ending balance	\$ 452	\$ 452

Note 4 | Loans

The composition of loans, net of unamortized loan origination fees of \$3,355,000 and \$2,459,000 at December 31, 2018 and 2017, respectively, are as follows:

(in thousands)	December 31,	
	2018	2017
Commercial	\$ 190,486	\$ 149,236
Real estate - construction	52,008	38,643
Real estate - residential owner occupied	51,324	46,405
Real estate - residential non-owner occupied	39,239	31,476
Real estate - commercial	291,826	230,333
Consumer	844	501
Total loans	625,727	496,594
Allowance for loan losses	(6,913)	(5,888)
Net loans	\$ 618,814	\$ 490,706

Note 5 | 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; and consumer. 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 of loans
- Changes in lending policies, underwriting and procedures
- Volatility of losses within each risk category
- Trends in underlying collateral values
- Economic factors
- Concentrations of credit
- Experience, depth and ability of management

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (Continued)

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 \$6,913,000 adequate to cover loan losses inherent in the loan portfolio, as of December 31, 2018.

Allowance for loan losses activity during 2018 is as follows:

(in thousands)	Balance at December 31, 2017	Charged- off Loans	Recoveries	Provision	Balance at December 31, 2018
Commercial	\$ 2,239	\$ (405)	\$ 16	\$ 850	\$ 2,700
Real estate - construction	373	-	-	106	479
Real estate - residential owner occupied	462	-	-	37	499
Real estate - residential non-owner occupied	551	(19)	3	(181)	354
Real estate - commercial	1,979	-	-	542	2,521
Consumer	20	-	-	(6)	14
Unallocated	264	-	-	82	346
Total	\$ 5,888	\$ (424)	\$ 19	\$ 1,430	\$ 6,913

During 2018 the allowance for commercial loans increased due to increased volume of loans, an increase in the historical loss factor as charge-offs increased, offset by a decrease in classified loans. Real estate - construction reserves increased primarily due to increased volume. Real estate - residential non-owner occupied reserves decreased due to a significant decrease in historical loss factors. The increase in reserves for real estate - commercial were driven largely by an increase in loan volume, an increase in classified loans, offset slightly by a decline in the historical loss factors. The changes in the reserve for the remaining portfolio segments were primarily due to changes in volume.

Allowance for loan losses activity during 2017 is as follows:

(in thousands)	Balance at December 31, 2016	Charged- off Loans	Recoveries	Provision	Balance at December 31, 2017
Commercial	\$ 1,414	\$ -	\$ -	\$ 825	\$ 2,239
Real estate - construction	245	-	-	128	373
Real estate - residential owner occupied	455	(69)	3	73	462
Real estate - residential non-owner occupied	485	(1)	60	7	551
Real estate - commercial	1,627	-	-	352	1,979
Consumer	25	(13)	-	8	20
Unallocated	261	-	-	3	264
Total	\$ 4,512	\$ (83)	\$ 63	\$ 1,396	\$ 5,888

During 2017 the allowance for commercial loans increased due to increased volume of loans an increase in the historical loss factor as recoveries decreased, as well as an increase in classified loans, and specific reserves for impaired loans. Real estate - construction reserves increased primarily due to an increase in the volume and terms of loans. The increase in reserves for real estate - commercial were driven largely by an increase in loan volume and also by a slight increase in loss adjustments, and off set slightly by a decline in the historical loss factor in multifamily loans. The changes in the reserve for the remaining portfolio segments were primarily due to changes in volume.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (Continued)

The following tables present, by portfolio segment, the allowance for loan losses broken down between loans individually evaluated for impairment and loans collectively evaluated for impairment, as well as the recorded investment in those loans:

(in thousands)	December 31, 2018		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	\$ 606	\$ 2,094	\$ 2,700
Real estate - construction	-	479	479
Real estate - residential owner occupied	-	499	499
Real estate - residential non-owner occupied	96	258	354
Real estate - commercial	10	2,511	2,521
Consumer	12	2	14
Unallocated	-	346	346
Total	<u>\$ 724</u>	<u>\$ 6,189</u>	<u>\$ 6,913</u>

Loans, ending balance:			
Commercial	\$ 619	\$ 189,867	\$ 190,486
Real estate - construction	-	52,008	52,008
Real estate - residential owner occupied	453	50,871	51,324
Real estate - residential non-owner occupied	366	38,873	39,239
Real estate - commercial	397	291,429	291,826
Consumer	12	832	844
Total	<u>\$ 1,847</u>	<u>\$ 623,880</u>	<u>\$ 625,727</u>

(in thousands)	December 31, 2017		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	\$ 670	\$ 1,569	\$ 2,239
Real estate - construction	-	373	373
Real estate - residential owner occupied	-	462	462
Real estate - residential non-owner occupied	97	454	551
Real estate - commercial	-	1,979	1,979
Consumer	19	1	20
Unallocated	-	264	264
Total	<u>\$ 786</u>	<u>\$ 5,102</u>	<u>\$ 5,888</u>

Loans, ending balance:			
Commercial	\$ 967	\$ 148,269	\$ 149,236
Real estate - construction	-	38,643	38,643
Real estate - residential owner occupied	484	45,921	46,405
Real estate - residential non-owner occupied	408	31,068	31,476
Real estate - commercial	54	230,279	230,333
Consumer	21	480	501
Total	<u>\$ 1,934</u>	<u>\$ 494,660</u>	<u>\$ 496,594</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (Continued)
Credit Quality and Aging

The following tables represent credit exposures for the Bank's commercial loan classes by internally assigned grades for the periods ended December 31, 2018 and 2017. 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.
- Doubtful – Loans classified as “Doubtful” have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.
- 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, 2018

	Commercial	Real Estate - Construction	Real Estate - Residential Non-owner Occupied	Real Estate - Commercial	Total
Pass	\$ 187,952	\$ 52,008	\$ 38,505	\$ 287,637	\$ 566,102
Special mention	1,915	-	39	3,545	5,499
Substandard	619	-	695	644	1,958
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	\$ 190,486	\$ 52,008	\$ 39,239	\$ 291,826	\$ 573,559

(in thousands)

December 31, 2017

	Commercial	Real Estate - Construction	Real Estate - Residential Non-owner Occupied	Real Estate - Commercial	Total
Pass	\$ 146,294	\$ 38,643	\$ 30,966	\$ 228,038	\$ 443,941
Special mention	1,814	-	47	2,167	4,028
Substandard	1,128	-	463	128	1,719
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	\$ 149,236	\$ 38,643	\$ 31,476	\$ 230,333	\$ 449,688

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 5 | Allowance for Loan Losses (Continued)

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 tables present performing and nonperforming loans based on payment activity for the period ended:

(in thousands)	At December 31, 2018		At December 31, 2017	
	Real Estate - Residential Owner Occupied	Consumer	Real Estate - Residential Owner Occupied	Consumer
Performing	\$ 50,769	\$ 832	\$ 45,920	\$ 480
Nonperforming	555	12	485	21
	<u>\$ 51,324</u>	<u>\$ 844</u>	<u>\$ 46,405</u>	<u>\$ 501</u>

Past-Due and Nonaccrual Loans

Generally, loans will be 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. 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.

The following table presents an aging analysis of the recorded investment of past-due financing receivables, broken down by segment and sub-segment, based on payment activity for the years ended December 31, 2018 and 2017.

(in thousands)	December 31, 2018					
	30-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans	Non- Accrual
Commercial	\$ 524	\$ 817	\$ 1,341	\$ 189,145	\$ 190,486	\$ 245
Real estate - construction	-	-	-	52,008	52,008	-
Real estate - residential owner occupied	243	102	345	50,979	51,324	453
Real estate - residential non-owner occupied	516	279	795	38,444	39,239	20
Real estate - commercial	1,016	313	1,329	290,497	291,826	343
Consumer	-	12	12	832	844	12
Total	<u>\$ 2,299</u>	<u>\$ 1,523</u>	<u>\$ 3,822</u>	<u>\$ 621,905</u>	<u>\$ 625,727</u>	<u>\$ 1,073</u>

(in thousands)	December 31, 2017					
	30-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans	Non- Accrual
Commercial	\$ 183	\$ 42	\$ 225	\$ 149,011	\$ 149,236	\$ 747
Real estate - construction	-	-	-	38,643	38,643	-
Real estate - residential owner occupied	69	-	69	46,336	46,405	485
Real estate - residential non-owner occupied	267	40	307	31,169	31,476	40
Real estate - commercial	150	74	224	230,109	230,333	74
Consumer	-	21	21	480	501	21
Total	<u>\$ 669</u>	<u>\$ 177</u>	<u>\$ 846</u>	<u>\$ 495,748</u>	<u>\$ 496,594</u>	<u>\$ 1,367</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (Continued)

At December 31, 2018 there were \$1,211,000 of loans 90 days past due or greater still accruing interest. There were no loans 90 days past due or greater still accruing interest at December 31, 2017.

Impaired Loans

Management analyzes commercial and commercial real estate 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. Additionally, any loan modified in a troubled debt restructuring is impaired regardless of the loan class. 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.

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 periods ended December 31, 2018 and 2017.

(in thousands)	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ 330	\$ -
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	453	453	-	467	-
Real estate - residential non-owner occupied	214	215	-	228	10
Real estate - commercial	381	381	-	330	4
Consumer	-	-	-	1	21
With an allowance recorded:					
Commercial	619	619	606	352	41
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	-	-	-	-	-
Real estate - residential non-owner occupied	152	152	96	156	6
Real estate - commercial	16	16	10	13	-
Consumer	12	12	12	15	-
Total	\$ 1,847	\$ 1,848	\$ 724	\$ 1,892	\$ 82

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (Continued)

(in thousands)	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 71	\$ 71	\$ -	\$ 14	\$ -
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	484	484	-	643	1
Real estate - residential non-owner occupied	252	252	-	272	12
Real estate - commercial	54	54	-	54	3
Consumer	2	2	-	14	-
With an allowance recorded:					
Commercial	896	896	670	359	11
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	-	-	-	-	-
Real estate - residential non-owner occupied	156	156	97	144	6
Real estate - commercial	-	-	-	-	-
Consumer	19	19	19	22	-
Total	\$ 1,934	\$ 1,934	\$ 786	\$ 1,522	\$ 33

Loan Modifications

Situations may arise that would cause the Bank to grant a concession for other-than-temporary purpose to a borrower experiencing financial difficulty 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 recorded investment in the loan at the measurement date. 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.

No loan modifications considered TDRs were completed during the twelve month periods ended December 31, 2018 and 2017.

Amounts within the allowance for loan losses allocated to TDRs are \$311,000 and \$330,000 at December 31, 2018 and 2017, respectively.

Foreclosed Assets

Foreclosed assets acquired in settlement of loans, or received via a deed in lieu transaction prior to the period end, are carried at fair value, less estimated costs to sell, and are included in other assets on the Consolidated Balance Sheet. There were no foreclosed assets remaining as of December 31, 2018. Foreclosed assets, comprised of consumer residential mortgages, amounted to \$506,000 at December 31, 2017. As of December 31, 2018, the Company has initiated formal foreclosure proceedings on \$20,000 of consumer residential mortgages, which have not yet been transferred into foreclosed assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 | Premises and Equipment

Ongoing additions to premises and equipment are recorded at cost. Occupancy and equipment expense includes depreciation expense of \$519,000 and \$486,000 for the years ended December 31, 2018 and 2017, respectively. 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. Disposals during 2018 amounted to \$73,000, and resulted in a net gain on disposal of \$11,000.

Premises and equipment were comprised of the following:

(in thousands)	2018	2017
Land	\$ 3,256	\$ 3,256
Buildings and improvements	2,755	2,700
Leasehold improvements	1,634	1,634
Furniture, fixtures, and equipment	2,633	2,541
Subtotal	10,278	10,131
Less: accumulated depreciation	(3,839)	(3,393)
Premises and equipment - net	<u>\$ 6,439</u>	<u>\$ 6,738</u>

Commitments payable related to the building of a branch and renovating leased space, amounted to \$154,000, and commitments payable related to software systems and computer network equipment and services amounted to \$291,000.

Lease expense amounted to \$753,000 and \$423,000 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments as of December 31, 2018 are as follows:

(in thousands)	
2019	\$ 785
2020	922
2021	881
2022	883
2023	722
Thereafter	1,508
	<u>\$ 5,701</u>

Note 7 | Deposits

Centric's deposits were comprised of the following:

(in thousands)	2018	2017
Demand, non-interest-bearing	\$ 93,685	\$ 71,238
Demand, interest-bearing	120,893	139,898
Savings	7,506	7,763
Money market	99,586	61,993
Time deposits	264,515	203,942
Total deposits	<u>\$ 586,185</u>	<u>\$ 484,834</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 | Deposits (Continued)

Scheduled maturities of time deposits are as follows:

(in thousands)	2018
2019	\$ 209,117
2020	39,494
2021	1,707
2022	23
2023	14,174
Total time deposits	<u>\$ 264,515</u>

Time deposits in denominations greater than \$250,000 totaled \$112,223,000 and \$51,350,000 for December 31, 2018 and 2017, respectively.

Note 8 | Short-Term Borrowings

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

(in thousands)	At December 31,	
	2018	2017
Balance	\$ 15,500	\$ 5,500
Maximum indebtedness at any month end	42,604	25,000
Average balance during year	18,558	9,984
Average rate paid for the year	2.27%	1.01%
Interest rate on year-end balance	2.44%	1.28%

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 114 days for the year ended December 31, 2018. The average maturity was 58 days for the year ended December 31, 2017.

Note 9 | Long-Term Debt

As one avenue for funding, the Bank is approved by the FHLB for borrowings of up to \$299,672,000 of which \$30,000,000 was outstanding in the form of advances and \$67,035,000 was outstanding in the form of letters of credit at December 31, 2018. Advances from the FHLB are secured by qualifying assets of the Bank.

During 2015, the Company issued \$6,000,000 in junior subordinated debentures, which are held by a financial institution. The debt bears interest at a fixed rate of 4.85 percent until December 2020, at which time the interest rate converts to a floating rate equal to Prime Rate plus one percent with a floor of 4.25 percent. The Company maintains the ability to redeem the debenture on or after December 2020. During 2017, the Company issued \$4,000,000 in additional subordinated debentures to four institutions all with the following terms: fixed rate of 5.50 percent for five years, then to a floating rate of WSJ prime + 1.00 percent, each maturing in June 2027. The Company maintains the ability to redeem these debentures on or after June 2022. Subordinated debentures issued by the company are unsecured.

A \$6,000,000 borrowing, issued by the Company, was outstanding at December 31, 2018 and 2017, with a rate of 4.85 percent, maturing in April 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 | Long-Term Debt (Continued)

The following table presents borrowings that mature at various dates through 2027 with weighted-average rates as follows:

(in thousands)	Principal Amount		Weighted Average Rate	
	2018	2017	2018	2017
FHLB advances - fixed	\$ 14,500	\$ 5,500	2.24%	1.58%
FHLB advances - amortizing	-	170	-	1.30%
Subordinated debt	10,000	10,000	5.11%	5.11%
Other borrowings	6,000	6,000	4.85%	4.85%
Total Long-term debt	\$ 30,500	\$ 21,670	3.69%	4.11%

The aggregate amount of future principal payments required on these borrowings at December 31, 2018, is as follows:

(in thousands)	
2019	\$ 5,500
2020	6,000
2021	3,000
2022	6,000
2023	-
Thereafter	10,000
	<u>\$ 30,500</u>

Note 10 | Stock Plans and Other Employee Benefits
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 6 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, 2018 and 2017, expense attributable to the plan amounted to \$143,000 and \$116,000, respectively. These expenses are included in salaries and employee benefits on the Consolidated Statement of Income.

Supplemental Executive Retirement Plan

During the year ended December 31, 2018, the Company entered into deferred compensation agreements with certain members of executive management which provide benefits payable beginning at age sixty seven, or upon subsequent retirement from the Company, or if the executive(s) becomes totally disabled. Under certain circumstances, benefits are payable to designated beneficiaries. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.0% ratably over the remaining years to the date when the executives are first eligible for benefits. The deferred compensation charged to expense totaled \$70,000 for the year ended December 31, 2018. As of December 31, 2018, the total accrued liability is \$70,000.

Stock Options and Warrants

The Company's Stock Incentive Plan of 2007 (the "2007 Plan") enables the Company to grant stock options, warrants, or restricted stock to directors and other designated employees. Shares from the 2007 Plan were issued from 2007 through 2017, and each issuance of this plan have an expiration date of ten years. The Stock Incentive Plan of 2017 (the "2017 Plan") was approved by shareholder vote during the 2017 Annual Meeting and will expire in 2027. The 2017 Plan covers 250,000 shares of common stock and each issuance of this plan have an expiration date of ten years..

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 | Stock Plans and Other Employee Benefits (Continued)

The number of shares available for grant at December 31, 2018 was 209,875.

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.

Options and warrants of the Plans outstanding at December 31, 2018, and the activity that occurred during the year consisted of the following:

	Options	Weighted-Average Exercise Price
Outstanding at the beginning of the year	159,774	\$ 5.82
Granted	17,308	10.76
Exercised	(44,388)	5.57
Forfeited	(1,523)	5.53
Outstanding at the end of the year	131,171	\$ 6.56
Exercisable at December 31, 2018	98,618	\$ 6.12

At December 31, 2018, the aggregate intrinsic value of all options is \$419,000 and \$361,000 outstanding and exercisable, respectively.

At December 31, 2018, the weighted-average remaining life of outstanding options is 5.27 years and exercisable options is 4.10 years. Stock options of 44,388 and 7,444 were exercised at a weighted average price of \$5.57 and \$5.35 during 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, stock option compensation expense of \$20,000 and \$8,000 was recognized in connection with the option plan, respectively. A tax benefit of \$3,000 and \$3,000 was recognized relative to these stock options at December 31, 2018 and 2017, respectively. As of December 31, 2018, related future compensation expense is \$18,000, \$12,000 and \$6,000 for 2019, 2020, and 2021, respectively.

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 the right to purchase 31,500 shares for a total of 315,000 shares at December 31, 2018 and 2017. These warrants would 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 and Chief Executive Officer 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 2018 and 2017, no warrants vested and the Company recorded no compensation expense associated with these grants.

The fair value of the options granted for the years ended December 31, 2018 and 2017, 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						
2018	\$ 9.25	0.00%	9.14%	5	2.83%	\$ 1.47
2017	6.12	0.00%	9.27%	5	1.91%	0.81
Employee stock options						
2018	\$ 11.55	0.00%	9.48%	6.5	2.80%	\$ 2.25
2017	6.12	0.00%	8.79%	6.5	2.10%	0.99

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 | Stock Plans and Other Employee Benefits (Continued)
Restricted Stock

As of December 31, 2018, over the life of the plans, the Company has awarded 49,688 and 16,197 restricted shares under the 2007 Plan and 2017 Plan, respectively, to non-employee directors and officers subject to vesting and other provisions.

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	30,424	\$ 6.07
Granted	10,123	10.78
Vested	(2,350)	5.00
Forfeited	(2,000)	5.94
Non-vested shares at the end of the year	36,197	\$ 7.46

For the years ended December 31, 2018 and 2017, compensation expense of \$71,000 and \$48,000 was recognized in connection with the vesting of restricted stock, respectively. Tax benefits of \$15,000 and \$16,000 were recognized relative to these shares at December 31, 2018 and 2017, respectively. Future compensation expense related to non-vested restricted stock at December 31, 2018 is \$78,000, \$58,000 and \$22,000 in 2019, 2020 and 2021, respectively.

Employee Stock Purchase Plan

The Company approved and implemented an Employee Stock Purchase Plan (ESPP) in 2015. This plan is intended to provide employees of Centric Financial Corporation and its subsidiary with an opportunity to acquire an interest in the Company through the purchase of common stock. Under the plan, eligible employees may purchase shares at fair market value, with no restrictions on the amount of shares they can purchase, up to a 5% ownership of combined voting power or value of all classes of stock of the Company. The Company reserved 200,000 shares of its common stock subject to adjustment of shares and price due to any recapitalization, reorganization, reclassification, stock dividends, combination of shares, or similar event in which the number or kind of shares is changed. Over the life of the plan, 15,223 shares have been issued. The number of shares issued during 2018 and 2017 was 6,811 and 4,295, respectively.

Note 11 | Federal Income Taxes

The provision for income taxes consists of the following for the period ended:

(in thousands)	2018	2017
Currently payable	\$ 2,412	\$ 2,796
Deferred taxes	(403)	(601)
Change in corporate tax rate	-	800
Total income tax expense	\$ 2,009	\$ 2,995

The December 22, 2017 passage of the Tax Cuts and Jobs Act reduced the base federal corporate tax rate from 35% to 21% effective January 1, 2018. GAAP requires corporations with net deferred tax assets or liabilities to account for the adjustment in the period enacted. As a result, the carrying value of net deferred tax assets was reduced, which increased income tax expense by \$800,000 in 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 | Federal Income Taxes (Continued)

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

(in thousands)	2018	2017
Deferred tax assets:		
Allowance for loan losses	\$ 1,452	\$ 1,236
Impairment losses on securities	-	1
Stock incentive expense	40	32
Uncollected interest	1	2
Unrealized losses on securities available-for-sale	11	33
Unrealized losses on securities held-to-maturity	10	25
Loan origination fees, net	218	65
Supplemental retirement	15	-
Other	92	92
Total deferred tax assets	<u>1,839</u>	<u>1,486</u>
Deferred tax liabilities:		
Goodwill and core deposit intangible	77	69
Prepaid expenses	94	57
Loan origination costs, net	-	-
Premises and equipment	3	62
Other	6	5
Total deferred tax liabilities	<u>180</u>	<u>193</u>
Net deferred tax assets	<u>\$ 1,659</u>	<u>\$ 1,293</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:

(in thousands)	2018	2017
Computed statutory tax expense	\$ 2,103	\$ 2,291
Adjustment for change in corporate tax rate	-	800
Other, net	(94)	(96)
	<u>\$ 2,009</u>	<u>\$ 2,995</u>

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 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 | 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, 2018, loans to related parties were \$3,182,000 and deposits by related parties totaled \$5,675,000. At December 31, 2017, loans to related parties were \$5,431,000 and deposits by related parties totaled \$7,181,000.

Related-party loan activity is summarized as follows:

(in thousands)	December 31,	
	2018	2017
Balance at the beginning of the period	\$ 5,431	\$ 13,661
Advances	4,206	383
Repayments	(553)	(4,871)
Changes in related parties	(5,902)	(3,742)
Balance at the end of the period	<u>\$ 3,182</u>	<u>\$ 5,431</u>

All of Centric's directors are customers of the Bank. As of December 31, 2018, Centric's shareholders number 339, many of which 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. For the years ended December 31, 2018 and 2017, related-party transactions include \$1,000 and \$9,000 of purchases, respectively. There was no revenue generated on related-party transactions for any of the periods listed.

Note 13 | 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 the Bank. 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:

(In thousands)	2018	2017
Commitment to grant loans	\$ 5,841	\$ 35,709
Unfunded commitments under lines of credit	96,024	80,696
Standby letters of credit	13,994	6,832
Total unfunded lending commitments	<u>\$ 115,859</u>	<u>\$ 123,237</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 | Unfunded Credit Commitments (Continued)

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 and are reviewed annually. 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.

Note 14 | Regulatory Matters

The Company and the Bank are subject to the Basel III Capital Rules that were effective at the beginning of 2015. These rules introduced the "capital conservation buffer", which will be phased in over a four-year period. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Bank'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 regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2018 and 2017, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2018, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Company and the Bank's capital ratios as of December 31, 2018 and 2017, are presented below:

	(in thousands)					
	December 31, 2018					
	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	\$ 86,507	13.60%	\$ 50,886	8.00%	\$ N/A	N/A
Bank	89,218	14.03%	50,873	8.00%	63,591	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	69,444	10.92%	38,156	6.00%	N/A	N/A
Bank	82,155	12.92%	38,152	6.00%	50,870	8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Company	69,444	10.92%	28,617	4.50%	N/A	N/A
Bank	82,155	12.92%	28,614	4.50%	41,332	6.50%
Tier 1 capital (to average assets)						
Company	69,444	9.68%	28,696	4.00%	N/A	N/A
Bank	82,155	11.48%	28,625	4.00%	35,782	5.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 | Regulatory Matters (Continued)

(in thousands)	December 31, 2017					
	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	\$ 57,408	11.22%	\$ 40,933	8.00%	\$ N/A	N/A
Bank	61,690	12.05%	40,956	8.00%	51,195	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	41,375	8.08%	30,724	6.00%	N/A	N/A
Bank	55,657	10.88%	30,693	6.00%	40,924	8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Company	41,375	8.08%	23,043	4.50%	N/A	N/A
Bank	55,657	10.88%	23,020	4.50%	33,251	6.50%
Tier 1 capital (to average assets)						
Company	41,375	7.70%	21,494	4.00%	N/A	N/A
Bank	55,657	10.38%	21,448	4.00%	26,810	5.00%

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

Note 15 | 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 | Fair Value Measurements (Continued)

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2018 and 2017, 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, 2018			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	\$ -	\$ 3,971	\$ -	\$ 3,971
Government sponsored mortgage-backed securities	-	17,084	-	17,084
Fair value measured on a non-recurring basis:				
Impaired loans	-	-	621	621

(in thousands)	December 31, 2017			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	\$ -	\$ 2,474	\$ -	\$ 2,474
Government sponsored mortgage-backed securities	-	5,444	-	5,444
Fair value measured on a non-recurring basis:				
Other real estate owned	-	-	506	506
Impaired loans	-	-	277	277

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. Fair value for certain held-to-maturity securities were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Impaired Loans

The Company has measured impairment on loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for loan losses, or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the table above as it is not currently being carried at its fair value. At December 31, 2018 and 2017, the fair values shown above exclude estimated selling costs of \$46,000 and \$8,000.

Other Real Estate Owned

OREO is carried at the lower of cost or fair value measured at the date of foreclosure. If the fair value of the collateral exceeds the carrying amount of the loan, no charge-off or adjustment is necessary, the loan is not considered to be carried at fair value, and is, therefore, not included in the table above. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value. The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property, and is included in the above table as a Level II measurement. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. In this case, the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 | Fair Value Measurements (Continued)

property is categorized in the above table as level III measurement, because the adjustment is considered to be an “unobservable” input. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO. For the years ended December 31, 2018 and 2017, write-downs of the same one property were required in each year, and therefore are considered to be carried at fair value. This remaining property was sold during 2018, and no properties remained in OREO at the end of 2018.

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, 2018 and 2017.

December 31, 2018					
(in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 621	Appraisal of collateral	Appraisal adjustments	0% - 50%	14.20%
			Liquidation expenses	0% - 25%	7.35%
			Holding period	0 - 24 months	

December 31, 2017					
(in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 277	Appraisal of collateral	Appraisal adjustments	0% - 20%	7.50%
			Liquidation expenses	0% - 10%	2.83%
			Holding period	0 - 24 months	
Other real estate owned	506	Appraisal of collateral	Appraisal adjustments	0% - 20%	10.00%
			Liquidation expenses	0% - 15%	7.00%

Note 16 | Fair Value of Financial Instruments

The fair value of the Company’s financial instruments that are not carried at fair value on the Consolidated Balance Sheet is as follows:

(in thousands)		December 31, 2018				
	Carrying Value	Fair Value	Level I	Level II	Level III	
Financial assets:						
Securities held to maturity	\$ 6,001	\$ 6,569	\$ -	\$ 6,171	\$ 398	
Net loans	618,814	642,660	-	-	642,660	
Loans held for sale	848	848	848	-	-	
Mortgage servicing rights and credit enhancement fees	1,719	1,777	-	-	1,777	
Financial liabilities:						
Time deposits	\$ 264,515	\$ 263,508	\$ -	\$ -	\$ 263,508	
Long-term borrowings	30,500	29,953	-	-	29,953	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 16 | Fair Value of Financial Instruments (Continued)

(in thousands)	December 31, 2017				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Securities held to maturity	\$ 6,536	\$ 7,264	\$ -	\$ 6,768	\$ 496
Net loans	490,706	496,092	-	-	496,092
Loans held for sale	285	285	285	-	-
Mortgage servicing rights and credit enhancement fees	1,264	1,412	-	-	1,412
Financial liabilities:					
Time deposits	\$ 203,942	\$ 203,570	\$ -	\$ -	\$ 203,570
Long-term borrowings	21,670	23,860	-	-	23,860

Cash and Cash Equivalents, Investments in Certificates of Deposits, Regulatory Stock, Cash Surrender Value Life Insurance, Accrued Interest Receivable, Non-maturity deposits, Short-term borrowings, and Accrued Interest Payable

The fair value is equal to the current carrying value.

The methods of determining the fair value of assets and liabilities presented in the note are consistent with our methodologies in the prior year, except for the valuation of loans held for investment which was impacted by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment, excluding impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit and nonperformance risk of the loans. Loans are considered a Level 3 classification.

Note 17 | Adoption of Accounting Policies

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Subsequent to the issuance of ASU 2014-09, the FASB issued targeted updates to clarify specific implementation issues including ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Identifying Performance Obligations and Licensing," ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," and ASU No. 2016-20 "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including service charges on deposit accounts, other loan fees, gain/loss on sale of other real estate owned and other assets, and certain components of other noninterest income. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net) resulting in no material reclassifications of income or expense. The Company adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the full retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 2 Revenue Recognition for more information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 | Adoption of Accounting Policies (Continued)

In January 2016, the FASB finalized ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This accounting standard (a) requires separate presentation of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) on the balance sheet and measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

The Company has adopted this standard during the reporting period. On a prospective basis, the Company implemented changes to the measurement of the fair value of financial instruments using an exit price notion for disclosure purposes included in Note 16 to the financial statements. The December 31, 2018, fair value of each class of financial instruments disclosure utilized the exit price notion when measuring fair value and, therefore, may not be comparable to the December 31, 2017 disclosure.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for certain income tax effects stranded in AOCI as a result of the Tax Act. Consequently, the reclassification eliminates the stranded tax effects resulting from the Tax Act and is intended to improve the usefulness of information reported to financial statement users. However, because the ASU only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. ASU No. 2018-02 is effective for the Company's reporting period beginning on January 1, 2019; early adoption is permitted. The Company elected to adopt ASU No. 2018-02 during the first quarter of 2018, and elected to reclassify the income tax effects of the Tax Act from AOCI to retained earnings. The reclassification decreased AOCI and increased retained earnings by approximately \$36,000, with no effect on total stockholders' equity.

Note 18 | Stock Offering

On May 21, 2018, the Company began a private placement offering to "accredited investors" (as defined in Regulation D promulgated under the Securities Act of 1933, as amended) offering up to 2,162,163 shares of common stock at a purchase price of \$9.25 per share. The Company's private placement offering was fully subscribed by the close of the offering on June 30, 2018, issuing a total of 2,275,000 shares at an offering price of \$9.25 per share. The direct costs of the offering through December 31, 2018 totaled \$1,355,000, resulting in additional capital of \$19,689,000 during 2018.

Note 19 | Subsequent Events

Management has reviewed events occurring through February 26, 2019, the date the financial statements were issued, and no subsequent events have occurred requiring accrual or disclosure.

BOARD OF DIRECTORS



Front row (*left to right*): Jeffrey W. Keiser, DDS, Partner & President, Forest Hills Dental Associates, P.C.; Donald E. Enders, Jr., Chairman of the Board, President & CEO, Colonial Park Realty Company, t/a Enders Insurance Associates; Patricia A. Husic, President & CEO, Centric Financial Corporation and Centric Bank; and Frank A. Conte, CLU, ChFC, Founding Partner, Conte Wealth Advisors, LLC.

Back row (*left to right*): Nicole S. Kaylor, Attorney, McNeese Wallace & Nurick, LLC; Thomas H. Flowers, CPA, Managing Partner, Flowers & Flowers CPAs; John A. Maher, CPA, Vice Chairman of the Board, Pennsylvania House of Representatives (Retired); Kerry A. Pae, Secretary for Centric Financial Corporation, President & Owner, Kerry Pae Auctioneers, Inc.; Steven P. Dayton, Business Development, RVG Management & Development Company; and Fred M. Essis, Director Emeritus, President & CEO, Essis & Sons Carpet One.

LEADERSHIP
MATTERS

SENIOR LEADERSHIP TEAM



Patricia A. Husic
President & CEO



Jeffrey W. Myers, SEVP
Chief Lending Officer



Sandra J. Schultz, EVP
Chief Financial Officer



Terrence M. Monteverde, EVP
Chief Credit Officer



Clair M. Finkbinder, III, EVP
Chief Information Officer &
Director of Operations



Leslie A. Meck, SVP
Chief Retail Officer



Kimberly L. Turner, SVP
Chief Risk Officer



Christine Pavlakovich, SVP
Director of Human Resources



Paul B. Zwally, SVP
Director of Mortgage Services
and Commercial Lender



Shane E. McNaughton, SVP
Management Information
Systems



SENIOR LENDING TEAM

Clockwise from left:
Donald J. Bonafede, SVP, Senior Commercial Lending Officer;
Michael J. Watson, SVP, Senior Commercial Lending Officer;
Michele E. Light, SVP, Bucks County Market Leader;
and Christopher J. Bickel, SVP, Main Line Market Leader.

BRANCH MANAGEMENT, BUSINESS DEVELOPMENT, AND LENDING TEAMS

BRANCH MANAGEMENT

- Mary Anne E. Bayer, VP
Silver Spring Financial Center Mgr.
- Wendy S. Buell
Camp Hill Financial Center Mgr.
- Timothy C. Mayersky, VP
Derry Township Financial Center
Senior Mgr.
- Joseph M. Rebarchak, VP
Lower Paxton Financial Center Mgr.
- Shelley A. George
Camp Hill Financial Center
Assistant Mgr.
- Patricia A. Kuhn
Silver Spring Financial Center
Assistant Mgr.
- Lori L. Moyer
Lower Paxton Financial Center
Assistant Mgr.
- Amber N. Spotts
Derry Township Financial Center
Assistant Mgr.

TREASURY MANAGEMENT

- Timothy J. Merrell, SVP
Director of Cash Management
and Treasury Services
- John K. Kroos, VP
Cash Management Sales Officer
- Mark A. Holst, AVP
Cash Management Customer
Care Officer

COMMERCIAL LENDING

- Tania J. Fleming, SVP
Commercial Lending Officer
- Christopher E. McDermott, SVP
Commercial Lending Officer
- Andrea R. Ahern, VP
Commercial Lending Officer
- Cory G. Bishop, VP
Commercial Lending Officer
- John H. Dean, VP
Commercial Lending Officer
- Joseph N. Desiderio, VP
Commercial Lending Officer
- Cheryl C. Sakalosky, VP
Commercial Lending Officer
- Sean P. Burns, AVP
Commercial Lending Officer

MORTGAGE LENDING

- Gethan K. Wilson, VP
Mortgage Department Team Leader
- Brian S. Connor
Mortgage Lending Officer
- Chris Conrad
Mortgage Lending Officer

BUSINESS DEVELOPMENT

- Patrick N. Snyder, VP
Senior Business Development Officer
- Bruce E. Straub, VP
Senior Business Development Officer
- Terence J. McGlinchey, VP
Business Development Officer
- Molly R. O’Keefe, AVP
Business Development Officer

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Cardiology/Cardiovascular Disease,
UPMC Pinnacle, Vice Chairman of
Doctor Centric Advisory Board
- Donald E. Enders, Jr.
President & CEO, Colonial Park Realty
Company, t/a Enders Insurance
Associates
- Mark Guise, VMD
Lockwillow Avenue Animal Clinic
- Jeffrey W. Keiser, DDS
Partner & President, Forest Hills
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2018 MILLENNIAL ADVISORY BOARD



Harrisburg Young Professionals Members: Trevin Shirey, Senior Business Development Manager, WebFX (co-chair); Ariel Jones, Development Director, Cultural Enrichment Fund (*not pictured*); Cody Wanner, Vlogger, codywanner.com (*not pictured*); Derek Whitesel, Executive Director, HYP; Devin Langan, Director of Planning, Legacy Business Advisors; Michael Manley, Provider Partnerships Consultant, Highmark Health; Nick Barbera, Manager, SunStone Consulting; Ruth Ritchie, Operations & Leasing Associate, WCI Partners, LP; Heather Thomas, Happiness Manager, WebFX.

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CENTRIC BANK FINANCIAL CENTERS AND COMMERCIAL LENDING OFFICES

HEADQUARTERS, MORTGAGE CENTER, AND LOWER PAXTON FINANCIAL CENTER

4320 Linglestown Road Harrisburg, PA 17112 (717) 657-7727 Fax (717) 657-5036	Lobby & Drive-Thru Hours M-Th 8:30 a.m. to 5:00 p.m. F 8:30 a.m. to 6:00 p.m. Sat 8:30 a.m. to 12 noon
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CAMP HILL FINANCIAL CENTER

1625 Market Street Camp Hill, PA 17011 (717) 730-2816 Fax (717) 730-2813	Lobby & Drive-Thru Hours M-Th 8:30 a.m. to 5:00 p.m. F 8:30 a.m. to 6:00 p.m. Sat 8:30 a.m. to 12 noon
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CORPORATE, EXECUTIVE, AND OPERATIONS CENTER

1826 Good Hope Road Enola, PA 17025 (717) 657-7727 Fax (717) 657-7748	Office Hours M-F 8:30 a.m. to 5:00 p.m.
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SILVER SPRING FINANCIAL CENTER

6480 Carlisle Pike Mechanicsburg, PA 17050 (717) 591-1360 Fax (717) 591-1363	Lobby & Drive-Thru Hours M-Th 8:30 a.m. to 5:00 p.m. F 8:30 a.m. to 6:00 p.m. Sat 8:30 a.m. to 12 noon
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BUCKS COUNTY LENDING OFFICE

2003 S. Easton Road, Ste. 205 Doylestown, PA 18901 (267) 880-4250 Fax (215) 489-2705	Office Hours M-F 8:30 a.m. to 5:00 p.m.
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DERRY TOWNSHIP FINANCIAL CENTER

1201 West Governor Road Hummelstown, PA 17036 (717) 533-7626 Fax (717) 533-7670	Lobby & Drive-Thru Hours M-Th 8:30 a.m. to 5:00 p.m. F 8:30 a.m. to 6:00 p.m. Sat 8:30 a.m. to 12 noon
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LANCASTER LENDING OFFICE

22 E. Roseville Road, Unit D Lancaster, PA 17601 (717) 614-6855 Fax (717) 522-5287	Office Hours M-F 8:30 a.m. to 5:00 p.m.
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MAIN LINE LENDING OFFICE

80 W. Lancaster Avenue, Ste. 200 Devon, PA 19333 (610) 710-4800 Fax (610) 688-2151	Office Hours M-F 8:30 a.m. to 5:00 p.m.
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COMING SOON | SEPTEMBER 2019

Main Line Financial Center, 105 Lancaster Avenue, Devon, PA 19333



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.*

INVESTOR RELATIONS

Common Stock Transactions

Centric Financial Corporation's Common Stock is traded for investors as OTC Pink: CFCX. Centric Financial Corporation uses the following registered market makers for their Common Stock.

- Boenning & Scattergood, Inc.
4 Tower Bridge
200 Barr Harbor Dr., Suite 300
West Conshohocken, PA 19428
- FIG Partners
1475 Peachtree St. NE, Suite 800
Atlanta, GA 30309
- Keefe, Bruyette & Woods
787 Seventh Avenue
New York, NY 10019
- Raymond James & Associates, Inc.
222 South Riverside Plaza
Seventh Floor
Chicago, IL 60606
- Wedbush Securities, Inc.
One SW Columbia St., Suite 1000
Portland, OR 97258

Registrar & Transfer Agent

AST Financial
ATTN: Centric Financial Corporation
6201 15th Ave., Brooklyn, NY 11219
(800) 937-5449 | info@amstock.com

Centric Bank serves a Commonwealth rich in capacity and potential. We are preparing tomorrow's technologists, inventors, doctors, builders, manufacturers, and doers to move ideas, to push beyond geographical and digital boundaries, and to unlock business capacity and human potential.

We believe in the power of small business to deeply impact our economy, to create jobs, and to transform communities. As *We Revolve Around You*, we will continue to say Yes to Main Street, to work harder for the best solutions, and to strengthen relationships well beyond financial transactions. This is the heart of our mission in the communities we serve.

Centric Financial Corporation 

4320 Linglestown Road, Harrisburg, PA 17112 | T (717) 657-7727 | F (717) 657-7748
www.centricbank.com

