ANNUAL REPORT 2019 | CENTRIC FINANCIAL CORPORATION

PARTNERS IN GROWTH.
A CULTURE OF PURPOSE.

OUR GOAL IS TO CREATE
AN ENVIRONMENT
WHERE OUR TEAMS BRING
HEART AND MIND TO WORK EVERY DAY,
WHERE CUSTOMERS FEEL VALUED,
AND WHERE THE COMMUNITY LOOKS TO
US AS LEADERS.

CENTRIC FINANCIAL CORPORATION

ANNUAL REPORT 2019

CENTRIC FINANCIAL CORPORATION: FINANCIAL REPORT 2019

TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS

DONALD E. ENDERS, JR.
Chairman of the Board

PATRICIA A. HUSIC
President & CEO

Meaningful relationships, time together, uninterrupted conversations, and personal attention—at Centric Bank, we've made these priorities our normal from the day we opened our doors in 2007. Today, just 12 short years since we first considered what a customer-centric bank might look like, we are even more dedicated to bringing purpose and value to our employees, customers, job creators, shareholders, and the community.

In 2019, the bank celebrated a year of physical and financial growth, national achievements, and high customer engagement. Our capital was put to work helping customers reach new milestones, launch businesses, outcompete with technology and talent, expand independent medical practices, and strengthen the fabric of our communities.

With the help of intensive research and relationship building, we planted our flag in Chester County, one of the fastest-growing counties in Pennsylvania and a region renowned for its entrepreneurism and innovation. In December, we unveiled a brand new 2,500 SF Devon Financial Center to join our loan production and cash management office.

We are bringing fresh financing opportunities and widening the guardrails of growth. Our five-person commercial lending team in Devon has hit the market running, exceeding first-year goals. Our brick-and-mortar growth, business partnerships, and community investments in Chester County are powerful reminders to the region that we are not simply "passing through."

Centric Financial Corporation reached another year of double-digit organic growth in 2019. The company reported net income for the year ended December 31, 2019 of $7.29 million or $0.84 per common share-basic, as compared to the prior year's results of $8.04 million, or a contraction of $719 thousand. This reduction in net income largely stemmed from the investment in the physical footprint expansion to Chester County, the related investment in new team members to staff the loan production, cash management, and financial center, as well as additional employees in existing financial centers to support the deposit sales strategies.

To ensure that our growth did not outpace our infrastructure, new hires were onboarded in the operations, technology, credit and underwriting, risk management, and compliance areas of the bank. Those hires were made in the first four to six months of 2019. Subsequent to those hires, we experienced an unexpected volatility in the interest rate environment with an inverted and flat yield curve, coupled by interest rate cuts of 75 basis points in the third quarter of 2019. This economic environment further impacted the growth goals for Centric Bank and the banking industry in general.

We ended 2019 with a solid net interest margin of 3.80%, largely a result of our pricing discipline in the lending area and our strategies to lower the cost of deposits in the third and fourth quarters of the year.

YEAR END HIGHLIGHTS

- Total assets ended at $832 million, an increase of $128 million, or 18%, over December 31, 2018
- Growth in total loans was $77 million, or 12%, bringing total loans outstanding to $703 million
- Total deposits grew $96 million, or 16%
- Total revenue grew $6 million, or 17%
- Net interest margin of 3.75% for Q4, an increase of 15 basis points over Q3 2019
- Year-to-date Return on Average Assets and Return on Average Equity at 0.95% and 9.87%, respectively
- Tangible book value per share was $8.79 at December 31, 2019, an increase of $0.84 per share, or 11% over December 31, 2018
- Opened sixth financial center and second location in Chester County
- Suburban Philadelphia market saw 43% or $72 million growth in loans outstanding over prior year end, reaching $237 million
- Suburban Philadelphia market deposits increased by 76% or $22 million
- Ranked a Top 10 SBA Lender in the Eastern District of PA at December 31, 2019

Deposit competition remained robust throughout 2019, coupled with an inverted yield curve, which resulted in an increased cost of deposits by 46 basis points. We have implemented strategies to further reduce our overall cost of deposits going into 2020, as well as restructuring our deposit composition on our balance sheet. Although the banking industry in general experienced compression in the net interest margin, Centric Bank compared favorably to our peer banks and the other financial institutions in our markets.

Non-interest income declined $339 thousand from 2018, due to the decrease in gain on sale of SBA loans. We have focused on diversifying our sources of non-interest income by expanding our products to including third-party swap referral fees and building out our cash management suite of products which will have a future impact on income as we onboard additional commercial businesses in that area.

As our loan portfolio continues to season, we experienced an increase in non-performing assets over the prior year to 1.45%, primarily a result of the SBA loan portfolio performance. Our conventional portfolio remains pristine. Due to the increased level of non-performing loans, we have also increased our provision to loan losses by $2.13 million, an increase of $699 thousand, or 49% over 2018. At the end of 2019, our loan loss provision to total loans was 1.18%, an increase from prior years at 1.10%. Management believes that the allowance for the loan loss reserve at December 31, 2019 adequately reflects the risk inherit in our loan portfolio.

Non-interest expenses increased $2.7 million or 15% due to investments in technology, new financial centers in Bucks and Chester counties, a new loan production office in Devon, expansion of our operations offices, and investments in our workforce for the new locations in the suburban Philadelphia market.

Our successful common stock offering in May of 2018 continues to provide a pathway to growth by funding new businesses and startups for expansion and adding hundreds of jobs and services to Pennsylvania's economy.

American Banker's Most Powerful Women in Banking awarded Centric Bank a Top Team for the third time, while our CEO was recognized for the fifth time as one of the 25 Most Powerful Women in Banking in the U.S. These are incredible achievements, and we are proud of our team's high performance. Of all the recognitions and awards that our organization receives, we are most proud of our financial institution being named a 2019 Best Banks to Work For by *American Banker*. Our entire team is dedicated to doing meaningful work and making a difference each day—not as a job description but inherent in our DNA.

Purpose is at the heart of our strategic mission and requires accountability and transparency across all stakeholder groups: from employees and shareholders to customers and communities. In an era when the only constant is change, we are a loyal partner with a compelling purpose. Thank you for your trust and investment—*We Revolve Around You.*

Donald E. Enders, Jr.

DONALD E. ENDERS, JR.
Chairman of the Board

Patricia A. Husic

PATRICIA A. HUSIC
President & CEO

OUR TEAM SHARES A PASSION FOR CHANGING THE STATUS QUO, EMBRACING NEW IDEAS, AND TEMPERING RISK WITH OPPORTUNITY.

PATTI HUSIC
PRESIDENT & CEO

3x

AMERICAN BANKER
MOST POWERFUL
WOMEN IN BANKING
TOP TEAM

PARTNERS IN GROWTH: "SETTING US UP FOR SUCCESS"

"Our team shares a passion for changing the status quo, embracing new ideas, and tempering risk with opportunity," says Patti Husic, President & CEO. "We go beyond providing financial mechanisms for business growth. We develop lasting partnerships with our customers, walking them through capital options, medical practice financing, cash management, multi-family affordable housing, community development, and not-for-profit sustainability."

"We wanted to work with Centric Bank because of their reputation for partnering with small businesses. From the initial loan application through settlement, they accommodated our busy schedules and needs," says Patty Sibbach, co-owner of Precision Training Concepts, Harrisburg. "We felt valued through every transaction and knew the Centric Bank team was setting us up for success. Patti and her team continue to provide us with the banking support to grow our business and serve our community. It's a true partnership!"

Wielding powerhouse business and commercial lending teams, Centric Bank's entrance into Chester County and Devon was strategic and opportunistic. In fact, they are meeting the shortage of local SBA lenders. In 2019, the bank originated 30 SBA loans for a total of $7.3 million in the eastern Pennsylvania region encompassing 40 of PA's 67 counties.

Recognized as one of the most efficient SBA 7(a) lending teams in Pennsylvania, Centric is proud of the entrepreneurs they're fueling with these funds. The Devon Financial Center, Centric's sixth financial center and second Chester County location, opened at 105 Lancaster Avenue in December 2019 and its state-of-the-art, modern architecture allows high visibility in the heart of the suburban Main Line. "In a region prized for its innovation and enterprise, we are introducing world-class, concierge financial services with a local team focused on delivering the finest customer experience," says Husic.

"We echo SBA Administrator Jovita Carranza when she said, 'I look forward to helping elevate female entrepreneurs, our military veterans, and expanding access to SBA resources among entrepreneurs in disadvantaged communities,'" says Jeffrey W. Myers, SEVP, Chief Lending Officer. "Our market areas, especially the suburban Philadelphia and Lancaster regions where our most recent personnel investments have been, are innovation centers with entrepreneurs looking for a bank to build a relationship with as they start and scale their businesses. We are that valued and trusted partner. Our commercial lending team excels at high touch and highly responsive consultative services."

Centric Bank's Doylestown Concierge Financial Center celebrated a Grand Opening of their redesigned offices at 2003 South Easton Road, Suite 205, in July 2019. Formerly a lending office, the space was renovated into a non-traditional branch layout featuring Universal Banker workstations (a hybrid of a teller and a personal banker) to assist customers with every banking service from securing a personal loan to opening a checking account.

"Being a true partner in growth is responding to customer needs with a new level of presence and accessibility," says Husic. "Our full-service banking is streamlined, personalized, and nearly instantaneous."

26

NEW **POSITIONS CREATED**

Centric Bank sees us as people, not as numbers and risk factors. The leaders and staff at Centric Bank took time to truly understand us and our story for our lending and banking business. Because of this approach, we were able to restructure our government debt and increase our line of credit which helped us with our cash flow. The online banking and checking functions are so convenient for busy business owners like us.

ALICIA WILLIAMS, CEO & PRESIDENT
AND **DENEAN WILLIAMS, CFO**
FULL CIRCLE GROUP
EXTON, PA

THE CRITICAL QUESTION IS NOT 'HOW CAN I ACHIEVE?' BUT 'WHAT CAN I CONTRIBUTE?'

PETER DRUCKER

EMBRACING OPPORTUNITIES

Leading the bank in security, cyberprotection, and disaster recovery, Clair Finkenbinder III, CIO, is vigilant about protecting personal information and preparing customers for a future of biometric identification and tokenization. "We are excited to share Centric Bank's support for Apple Pay, Google Pay, and Samsung Pay," says Finkenbinder. "A recent Oracle report shows that 69% of consumers want their entire financial lifecycle on digital channels. Technology is at the core of everything we do."

Ensuring that customers have "smart" access to information and services, Finkenbinder led the implementation of Next Generation threat detection, enhanced Disaster Recovery and Business Continuity Planning, eSign for Depository Account Opening, Commercial Lending Customer Portal, Commercial Lending Enterprise Workflow, and enhanced Commercial Account Analysis.

In this constantly changing cloud-driven environment, Centric Bank combines digital IQ with a trusted and convenient brick-and-mortar presence.

New opportunities in financing housing and small business in disadvantaged communities, including multi-family housing, are providing an economic lift in the bank's market areas.

"As we expand our portfolio of Community Development CRA loans and include multi-family housing, the Sussex Court project in Harrisburg became special to us. This project not only added to our Community Development CRA Loans, but funding available from the FHLB Community Lending Program helped make this financing feasible," says Kimberly Turner, the bank's CRA Officer and Chief Risk Officer, who was appointed in January 2019.

"The Sussex rents in these 84 units are affordable for families with very low incomes as defined by HUD. It doesn't get more personal than helping someone establish a home, and we're proud of the impact this project is having on families," says Turner.

When we first opened ServPro, we were traveling more than 30 minutes to do our banking, which was not sustainable. That's when we met Joe Rebarchak and heard about Centric Bank. Banking with Centric has been convenient, and everyone we've met has been helpful and vigilant when it comes to issues with our account. We experienced some fraudulent charges on our account, and Centric Bank was the first to alert us and called immediately. With Centric Bank, we have someone looking out for us and our business!

JOE AND DONNA LAPP, OWNERS
SERVPRO OF HERSHEY/HARRISBURG EAST
AND SERVPRO OF LEBANON COUNTY
HUMMELSTOWN, PA

I found Centric Bank when my previous big bank of 20 years refused to work with me on the terms that I needed. Centric Bank provided me with what I needed to refinance my loans and finance our new Willow Street location. I can't say enough about Don Bonafede. He understands that being a business owner means I can't always travel for meetings. Don always travels to me when we need to meet and always answers the phone when I call.

MICK OWENS, OWNER

MICK'S ALL AMERICAN PUB

MANHEIM, PA

5x

AMERICAN BANKER MOST POWERFUL WOMEN IN BANKING

PATTI HUSIC

16%

TOTAL DEPOSIT GROWTH

17%

TOTAL REVENUE GROWTH

EXPANDING COMMUNITY FOUNDATIONS

Chief Retail Officer Leslie Meck strengthens financial literacy programs in schools and organizations by incorporating new messaging channels, especially to reach digital natives like Generation Z. Her team launched the second annual *Lights, Camera, Save!* video competition to school districts throughout Pennsylvania. Generation Z represents the second-largest generation in the U.S., as well as approximately 40% of the country's consumer purchasing power, and it's important for the bank to stay engaged with them. Now in its fourth year, the Millennial Advisory Board continues to inform Centric Bank's products and service delivery.

"We've cultivated a brand message that is rich in relational equity. The combined value of goodwill in our relationships at work, with customers, in volunteer capacities, and among shareholders is powerful currency," says Meck. Centric is producing leaders that are active in memorial races, American Heart Association, American Cancer Society, The Salvation Army Harrisburg Capital City Region and WIN, Central PA Food Bank, Habitat for Humanity Bucks County and Harrisburg, Keystone Business Alliance, Toys for Tots, Susquehanna SCORE, YMCA of Doylestown, YWCA Bucks County, and YWCA Greater Harrisburg. "We have built an institution that revolves around people, and we place service to others at the top of the balance sheet. Through sponsorships, donations, and casual-for-a-cause programs, the bank has exceeded a total of $119,000 to support more than 120 non-profits," says Meck.

In October 2019, Patti Husic was honored for the fifth consecutive year as one of *American Banker's* 25 Most Powerful Women in Banking in the U.S., and the leadership team, 67% of whom are female, was recognized for the third time with the prestigious Top Team award, in the company of Citigroup and U.S. Bancorp. Husic was also recognized with the Lifetime Achievement Award at The Conference for Women. Chosen from among central Pennsylvania's most esteemed community and business leaders, she has built long-term business success with community involvement, innovation, and leading her team to adapt and thrive in an ever-changing business environment.

"Our team's triumphs are the direct result of their passion and customer-first principles," says Husic. "My most critical management decision in growing the bank is hiring and retaining top talent. Each of our leaders offers extraordinary skills and brings creative and innovative solutions to our customers' challenges. Every day they're discovering how we can grow stronger, how we can reach the next asset size, and how we can finance more job creators."

In August, Centric Bank was recognized by *American Banker* for the second consecutive year as a 2019 *Best Banks to Work For*. The bank was highlighted as #44 in the list of 85—a testament to a financial institution that prides itself on operating more like a family than a bank.

Quarterly *Women Centric: Prepared to Lead* sessions continued to provide leadership growth and business inspiration for women business owners in areas like self-defense and entrepreneurship.

43%

INCREASE IN LOAN GROWTH IN SUBURBAN PHILADELPHIA MARKET

Working with Centric Bank is like having a partner looking out for you every step of the way. They really care about us and our success. When we are ready to take the next step and expand our business, we know that Centric Bank will be there for us.

MATTHEW FLINCHBAUGH

HOME SLICE AT WALDEN, MECHANICSBURG, PA†

FLINCHY'S, CAMP HILL, PA‡

† OWNER | ‡ CO-OWNER

A CULTURE OF PURPOSE

"Purpose is not a line item on our balance sheets; it's the very reason 138 people bring their hearts, minds, and curiosity to work," says Husic.

"We were privileged in 2019 to add executive bench strength with William T. McGrath as EVP, Chief Credit Officer, and Jacqueline M. Fahey as SVP, Bucks County Market Leader. We have a reputation for ambitious, progressive growth, and we've become a talent magnet in a hypercompetitive marketplace," says Christine Pavlakovich, SVP, Chief Human Resources Officer.

The leadership team introduced two new initiatives to future-proof the bank and the brand—an Employee Experience (EX) and a Customer Experience (CX). Increasing training and development opportunities for all employees, including personal defense, situational awareness classes, and on-site health fairs enriches the workplace and fortifies the customer.

Deepening a commitment to the health care community, Doctor Centric Bank, a division of Centric Bank, continues to expand concierge financial services to meet the demands of physicians and practices. "Medical professionals and health care companies need to devote all their time and resources to the health and wellness of their patients. While they look out for our physical and mental health, our team looks out for their financial health. We bring turnkey financing solutions for practice buy-ins, buy-outs, technology upgrades, equipment purchases, and practice expansions, plus a full suite of business banking and cash management services," says Husic. Doctor Centric Bank saw a 7.5% increase in loans outstanding, as well as deposit growth.

The Centric Bank team delivers "Legendary Service" in every experience throughout the customer journey and truly embodies the spirit of *We Revolve Around You*. One quiet indicator of a company's culture is how highly the employees esteem each other. "Our people nominate each other for STAR Awards to highlight their exemplary service to the customers, the community, and each other," says Pavlakovich.

"Customers expect a frictionless, seamless banking experience, and we're making sure every employee is prepared to provide that. Our goal is to create an environment where our teams bring heart and mind to work every day, where customers feel valued and connected, and where the community looks to us as leaders," says Husic. "The true success of our organization is that the sum outperforms the parts."

> THE TRUE SUCCESS OF OUR ORGANIZATION IS THAT THE SUM OUTPERFORMS THE PARTS.
>
> PATTI HUSIC
> PRESIDENT & CEO

We had already started the construction process on a new oral surgery facility in York County when we lost faith in the bank we had been using. When Centric Bank was recommended, and we met with Jeff Myers, we knew we could trust them through the completion of the construction project. Not only did we trust them with financing our new building, we also moved all of our business banking and personal accounts to Centric.

DR. JAMES M. BOYLE, PRESIDENT & CEO
JANE BOYLE, BUSINESS MANAGER
SUSQUEHANNA ORAL & MAXILLOFACIAL SURGERY, P.C.
YORK, PA

All banks provide funding, but the ability to nurture a relationship and develop a strong bond is something unique and what Centric Bank does well. Their focused approach to treat each customer based upon their needs allows a personalized relationship to be formed. Centric Bank has provided consistent assistance year after year to support our aggressive growth business model and help us accomplish our goals.

KUNAL PATEL, FOUNDER & CEO
PARITY TECHNOLOGY SOLUTIONS
HARRISBURG, PA

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, 2019 and 2018; 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 19, 2020

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	December 31, 2019	2018
ASSETS		
Cash and due from banks	$ 44,736	$ 6,181
Interest-bearing deposits in other banks	1,980	3,769
Federal funds sold	20,153	26,358
Cash and cash equivalents	66,869	36,308
Investments in certificates of deposits	2,747	1,488
Securities available for sale	29,865	21,055
Securities held to maturity, fair value of $4,068 and $6,569	4,009	6,001
Loans	703,143	625,727
Less: allowance for loan losses	8,293	6,913
Net loans	694,850	618,814
Finance lease right-of-use asset	5,472	-
Other premises and equipment, net	8,581	6,439
Total premises and equipment	14,053	6,439
Loans held for sale	1,687	848
Accrued interest receivable	2,304	1,993
Operating lease right-of-use asset	3,834	-
Regulatory stock	2,460	1,949
Cash surrender value life insurance	4,193	4,085
Mortgage servicing rights	1,337	1,719
Goodwill	492	492
Other assets	3,504	3,205
TOTAL ASSETS	**$ 832,204**	**$ 704,396**
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits - noninterest-bearing	$ 109,799	$ 93,685
Deposits - interest-bearing	572,261	492,500
Total deposits	682,060	586,185
Operating lease liability	3,849	-
Finance lease liability	5,631	-
Short-term borrowings	-	15,500
Long-term debt	60,955	30,500
Total borrowed funds	70,435	46,000
Accrued interest payable	399	511
Other liabilities	1,821	1,927
Total Liabilities	**754,715**	**634,623**
STOCKHOLDERS' EQUITY		
Common stock, $1.00 par; 12,000,000 shares authorized; 8,758,646 and 8,714,975 shares issued and outstanding in 2019 and 2018, respectively	8,759	8,715
Additional paid-in capital	46,205	45,921
Retained earnings	22,504	15,219
Accumulated other comprehensive income (loss)	21	(82)
Total Stockholders' Equity	**77,489**	**69,773**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 832,204**	**$ 704,396**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except share and per share data)	Year Ended December 31, 2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 37,222	$ 31,153
Interest and dividends on securities	1,095	643
Interest-bearing deposits in other banks	105	82
Federal funds sold	987	715
Total interest income	39,409	32,593
INTEREST EXPENSE		
Interest on deposits	9,493	5,913
Interest on borrowings	1,797	1,507
Total interest expense	11,290	7,420
Net interest income	28,119	25,173
Provision for loan losses	2,129	1,430
Net interest income after provision for loan losses	25,990	23,743
NONINTEREST INCOME		
Service charges on deposit accounts	296	305
Other loan fees and servicing income	1,345	1,007
Net gain on sale of loans	1,220	2,253
Customer swap referral fees	533	117
Earnings on cash surrender value of life insurance	108	112
Gain on sale of other real estate owned, net	13	125
Gain on disposal of other assets, net	15	11
Other income	565	504
Total noninterest income	4,095	4,434
NONINTEREST EXPENSE		
Salaries and employee benefits	11,935	10,341
Occupancy and equipment	2,032	1,956
Legal and professional fees	741	529
Data processing	1,131	1,012
Advertising and marketing	691	565
Shares tax	835	525
Directors expense	359	155
Federal deposit insurance	186	348
Other expenses	3,002	2,733
Total noninterest expense	20,912	18,164
Income before income tax expense	9,173	10,013
Income tax expense	1,888	2,009
NET INCOME	**$ 7,285**	**$ 8,004**
PER SHARE DATA		
Basic earnings per share	$ 0.84	$ 1.03
Diluted earnings per share	$ 0.83	$ 1.02
Average shares outstanding (basic)	8,723,449	7,773,912
Average shares outstanding (diluted)	8,755,337	7,814,419

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands)	December 31, 2019	December 31, 2018
NET INCOME	$ 7,285	$ 8,004
Other comprehensive income:		
Unrealized holding gains on available-for-sale securities	118	102
Tax effect	(25)	(21)
Accretion of discount on securities transferred to held to maturity	2	58
Tax Effect	-	(12)
Accretion of non-credit OTTI on held-to-maturity securities	10	10
Tax effect	(2)	(2)
Total other comprehensive income	103	135
COMPREHENSIVE INCOME	**$ 7,388**	**$ 8,139**

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 Income (Loss)	Total
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
Net income			7,285		7,285
Other comprehensive income				103	103
Stock-based compensation plans:					
Issuance of restricted stock (21,260 shares)	21	(21)			-
Forfeiture of restricted stock (1,968 shares)	(2)	2			-
Restricted stock - compensation expense		123			123
Stock options - compensation expense		31			31
Stock options exercised (16,936 shares)	17	81			98
Issuance of Employee Stock Purchase Plan (7,443 shares)	8	68			76
Balance, December 31, 2019	**$ 8,759**	**$ 46,205**	**$ 22,504**	**$ 21**	**$ 77,489**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Years Ended December 31, 2019	2018
Cash flows from operating activities		
Net income	$ 7,285	$ 8,004
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan losses	2,129	1,430
Depreciation and amortization	2,539	1,248
Amortization of operating lease right-of-use asset	15	-
Stock-based compensation	154	91
Deferred income tax benefit	(372)	(403)
Loans originated for sale	(31,966)	(50,553)
Proceeds from sale of loans	32,347	52,243
Net gain on sale of loans	(1,220)	(2,253)
Increase in accrued interest receivable	(311)	(487)
Increase (decrease) in accrued interest payable	(112)	278
Earnings on cash surrender value of life insurance	(108)	(112)
Net gain on sale of other real estate owned	(13)	(125)
Other, net	(269)	(596)
Net cash provided by operating activities	10,098	8,765
Cash flows from investing activities		
Net increase of investment certificates of deposits	(1,259)	(739)
Investment securities available-for-sale		
Proceeds from sales, payments and maturities	17,841	1,891
Purchases	(26,676)	(14,950)
Investment securities held-to-maturity		
Proceeds from sales, payments and maturities	2,254	605
Purchases	(250)	-
Regulatory stock		
Purchases	(2,607)	(3,058)
Redemption	2,096	2,263
Net increase in loans	(79,397)	(130,105)
Purchases of bank premises and equipment	(2,516)	(209)
Proceeds from disposal of other real estate owned	24	363
Net cash used for investing activities	(90,490)	(143,939)
Cash flows from financing activities		
Net increase in deposits	95,875	101,351
Net increase (decrease) in short-term borrowings	(15,500)	10,000
Proceeds from long-term debt	35,955	9,000
Payments on long-term debt	(5,500)	(170)
Payments on finance lease obligations	(51)	-
Stock options exercised	98	246
Net proceeds from issuance of common stock	76	19,732
Net cash provided by financing activities	110,953	140,159
Net increase in cash and cash equivalents	30,561	4,985
Cash and cash equivalents at beginning of period	36,308	31,323
Cash and cash equivalents at end of period	**$ 66,869**	**$ 36,308**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(in thousands)	Years Ended December 31, 2019	2018
Supplemental information		
Cash paid for interest	$ 11,402	$ 7,142
Cash paid for income taxes	2,250	2,620
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	31	-
Initial recognition of lease right-of-use assets	9,653	-
Initial recognition of lease liabilities	9,635	-

See 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, two full service offices in Bucks and Chester Counties, and two loan production offices in Chester and Lancaster Counties, as well as online banking channels. The Bank's principal sources of revenue is interest income generated from the portfolio of real estate loans, commercial loans and consumer loans, interest income generated from the investment portfolio, as well as non-interest income from the generation and subsequent sale of loans.

Centric is subject to regulation and supervision of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System, and its deposits are insured by the FDIC, up to applicable limits, through its Deposit Insurance Fund ("DIF").

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, mortgage servicing rights, 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 $1,130,000 and $845,000 at December 31, 2019 and 2018, 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 loan and credit commitments are comprised of customers, primarily individuals and small to medium-sized businesses, based in Dauphin, Cumberland, Lancaster, Bucks and Chester counties of Pennsylvania, as well as into New Jersey. 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 discontinued through an analysis by management when there are serious doubts about further collectibility of principal or interest, even if 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 that was 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.

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.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 | Significant Accounting Policies (*Continued*)

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 straightline basis over 15 years. There was no impairment of goodwill as of December 31, 2019 or 2018.

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 $4,000 and $5,000 during 2019 and 2018, respectively. The MPF portfolio balance was $910,000 and $1,213,000 at December 31, 2019 and 2018, respectively. The FHLB maintains a first-loss position for the MPF portfolio that totals $317,000. Should the FHLB exhaust its first-loss position, recourse to the Bank's credit enhancement would cover the next $4,000 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, 2019 or 2018.

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 $69,544,000 and $77,234,000 at December 31, 2019 and 2018, respectively. Additionally, they are subject to an impairment analysis based on their fair value in future periods. In 2019, the Bank recorded an impairment of $27,000 to mortgage servicing assets, no impairment was recorded in 2018. The mortgage servicing rights balance at December 31, 2019 and 2018 and the activity that occurred during the year consisted of the following:

(in thousands)	2019	2018
Beginning balance	$ 1,719	$ 1,264
New mortgage servicing rights	213	594
Valuation adjustment to the carrying value of servicing assets	(27)	-
Amortization of mortgage servicing rights	(568)	(139)
Ending balance	$ 1,337	$ 1,719

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

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

Advertising and Marketing Costs
The Bank charges advertising costs to expense as incurred.

Note 1 | Significant Accounting Policies (*Continued*)

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, 20,556 and 1,261 shares of common stock, at a weighted-average price of $10.65 and $11.55, outstanding at December 31, 2019 and 2018, respectively; and unvested restricted shares of 20,178 and 9,421 at December 31, 2019 and 2018, at a weighted-average price of $9.73 and $10.32, respectively, were not included in dilutive earnings per share because the result would be anti-dilutive.

(in thousands, except shares and per share data)		2019		2018
Net income	$	7,285	$	8,004
Weighted average number of shares outstanding (basic)		8,723,449		7,773,912
Effect of dilutive securities		31,888		40,507
Weighted average number of shares outstanding (diluted)		8,755,337		7,814,419
Per share information:				
Basic earnings per share	$	0.84	$	1.03
Diluted earnings per share	$	0.83	$	1.02

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 2019 and 2018, $98,000 and $246,000 in stock options were exercised, with a tax benefit of $15,000 and $53,000, respectively. No warrants were exercised during 2019 or 2018.

Accumulated Other Comprehensive Income (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 income (loss), as follows, net of taxes:

(in thousands)	2019			2018		
	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	$ (44)	$ (38)	$ (82)	$ (103)	$ (78)	$ (181)
Other comprehensive income (loss) before reclassifications	93	10	103	81	54	135
Reclassification of certain income tax effects from accumulated other comprehensive income	-	-	-	(22)	(14)	(36)
Net current-period other comprehensive income (loss)	93	10	103	59	40	99
Ending balance	$ 49	$ (28)	$ 21	$ (44)	$ (38)	$ (82)

There were no amounts reclassified out of any components of accumulated other comprehensive income (loss) for 2019 or 2018. 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 inco me 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. 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

Note 2 | Revenue Recognition (*Continued*)

commercial substance and that collection of 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.

Customer swap referral fees

The Bank instituted Pacific Coast Bankers' Bank (PCBB) Borrower's Loan Protection Program (BLP) at the end of 2018. Centric's loan customers may choose to enter the program to create a fixed rate loan swap between PCBB and the customer. Centric maintains 100% of the floating rate loan with a predefined principal amortization schedule. On the date the customer's loan enters the BLP program, Centric may receive a referral fee. Fees received are recognized as other income immediately, and are limited to a maximum of 25 basis points per loan.

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, 2019			
U.S. government agency securities	$ 8,034	$ 23	$ (19)	$ 8,038
Government sponsored mortgage-backed securities	21,766	161	(100)	21,827
Total	$ 29,800	$ 184	$ (119)	$ 29,865
	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

A summary of securities held to maturity is as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	December 31, 2019			
Municipal securities	$ 1,460	$ 12	$ -	$ 1,472
Other debt securities	2,250	2	-	2,252
Private collateralized mortgage obligations	299	45	-	344
	$ 4,009	$ 59	$ -	$ 4,068
	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
	$ 6,001	$ 570	$ (2)	$ 6,569

Note 3 | Investment Securities (*Continued*)

Securities with a fair value of $23,353,000 and $21,051,000 were pledged to collateralize bank deposits by Pennsylvania local governments and the discount window as of December 31, 2019 and 2018, respectively.

During 2019, the Bank sold thirteen securities totaling $7,717,000 resulting in gross gains of $39,000 and gross losses of $39,000. No securities were sold during 2018.

The amortized cost and fair value of debt securities owned at December 31, 2019, by contractual maturity, are shown below:

(in thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 500	$ 500	$ -	$ -
Due after one year through five years	964	979	730	741
Due after five years through ten years	5,878	5,849	2,500	2,502
Due after ten years	22,458	22,537	779	825
Total investment securities	$ 29,800	$ 29,865	$ 4,009	$ 4,068

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	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			December 31, 2019			
U.S. government agency securities	$ 3,731	$ (19)	$ -	$ -	$ 3,731	$ (19)
Government sponsored mortgage-backed securities	10,417	(66)	2,459	(34)	12,876	(100)
Total temporarily impaired securities	$ 14,148	$ (85)	$ 2,459	$ (34)	$ 16,607	$ (119)
			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	$ 414	$ (1)	$ 6,083	$ (207)	$ 6,497	$ (208)

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.

Note 3 | Investment Securities (*Continued*)

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, 2019 and 2018, Centric did not record any credit-related impairment. There were 33 securities that were temporarily impaired at December 31, 2019.

Changes in credit losses during 2019 and 2018 associated with investment securities for which other-than-temporary impairment losses have been previously recognized in both earnings and other comprehensive income follows:

	Year Ended December 31,	
(in thousands)	2019	2018
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 $3,299,000 and $3,355,000 at December 31, 2019 and 2018, respectively, are as follows:

	December 31,	
(in thousands)	2019	2018
Commercial	$ 206,207	$ 190,486
Real estate - construction	48,311	52,008
Real estate - residential owner occupied	51,203	51,324
Real estate - residential non-owner occupied	52,350	39,239
Real estate - commercial	344,085	291,826
Consumer	987	844
Total loans	703,143	625,727
Allowance for loan losses	(8,293)	(6,913)
Net loans	$ 694,850	$ 618,814

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (*Continued*)

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

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 $8,293,000 adequate to cover loan losses inherent in the loan portfolio, as of December 31, 2019.

Allowance for loan losses activity during 2019 is as follows:

(in thousands)	Balance at December 31, 2018	Charged-off Loans	Recoveries	Provision	Balance at December 31, 2019
Commercial	$ 2,700	$ (761)	$ 86	$ 1,963	$ 3,988
Real estate - construction	479	(12)	-	17	484
Real estate - residential owner occupied	499	-	-	(54)	445
Real estate - residential non-owner occupied	354	(9)	-	107	452
Real estate - commercial	2,521	(53)	-	439	2,907
Consumer	14	-	-	2	16
Unallocated	346	-	-	(345)	1
Total	$ 6,913	$ (835)	$ 86	$ 2,129	$ 8,293

During 2019, the commercial loan portfolio increased $16 million over last year end. Although the historical loss factor has declined over last year, the overall allocation of provision for commercial loans has the highest percentage of estimated losses allocated to the portfolio. This is due to a larger volume of SBA loans in this category. The SBA portfolio also had an increase in the factor for levels of delinquent and nonaccrual loans, as these make up a significant percentage of balances in those categories, as well as an increase in specific reserves for impaired loans. The real estate – commercial allowance is also provided for at a higher rate due to volume and growth of $52 million in the portfolio, as well as an increase in the historical loss factor for multifamily loans. The increase in allowance for real estate - residential non-owner occupied was due to volume increases of $13 million along with an increase in substandard loans. The changes in the reserve for the remaining portfolio segments were primarily due to changes in volume. The decline in the unallocated was a result of growth in the entire loan portfolio.

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

Note 5 | **Allowance for Loan Losses** (*Continued*)

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.

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, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	$ 1,716	$ 2,272	$ 3,988
Real estate - construction	-	484	484
Real estate - residential owner occupied	14	431	445
Real estate - residential non-owner occupied	50	402	452
Real estate - commercial	-	2,907	2,907
Consumer	6	10	16
Unallocated	-	1	1
Total	$ 1,786	$ 6,507	$ 8,293
Loans, ending balance:			
Commercial	$ 5,793	$ 200,414	$ 206,207
Real estate - construction	-	48,311	48,311
Real estate - residential owner occupied	576	50,627	51,203
Real estate - residential non-owner occupied	968	51,382	52,350
Real estate - commercial	614	343,471	344,085
Consumer	6	981	987
Total	$ 7,957	$ 695,186	$ 703,143

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (*Continued*)

(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	$ 724	$ 6,189	$ 6,913
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	$ 1,847	$ 623,880	$ 625,727

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, 2019 and 2018. 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.

Note 5 | Allowance for Loan Losses (*Continued*)

(in thousands)	December 31, 2019				
	Commercial	Real Estate - Construction	Real Estate - Residential Non-owner Occupied	Real Estate - Commercial	Total
Pass	$ 200,092	$ 48,311	$ 50,840	$ 342,006	$ 641,249
Special mention	227	-	220	1,464	1,911
Substandard	5,879	-	1,290	615	7,784
Doubtful	9	-	-	-	9
Loss	-	-	-	-	-
Total	$ 206,207	$ 48,311	$ 52,350	$ 344,085	$ 650,953

(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

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, 2019		At December 31, 2018	
	Real Estate - Residential Owner Occupied	Consumer	Real Estate - Residential Owner Occupied	Consumer
Performing	$ 50,654	$ 981	$ 50,769	$ 832
Nonperforming	549	6	555	12
	$ 51,203	$ 987	$ 51,324	$ 844

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 | Allowance for Loan Losses (*Continued*)

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, 2019 and 2018.

(in thousands)	December 31, 2019					
	30-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans	Non-Accrual
Commercial	$ 1,325	$ 7,256	$ 8,581	$ 197,626	$ 206,207	$ 3,346
Real estate - construction	121	-	121	48,190	48,311	-
Real estate - residential owner occupied	20	564	584	50,619	51,203	576
Real estate - residential non-owner occupied	208	776	984	51,366	52,350	968
Real estate - commercial	3,993	248	4,241	339,844	344,085	275
Consumer	11	6	17	970	987	6
Total	$ 5,678	$ 8,850	$ 14,528	$ 688,615	$ 703,143	$ 5,171

(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	$ 2,299	$ 1,523	$ 3,822	$ 621,905	$ 625,727	$ 1,073

There were $4,078,000 and $1,211,000 of loans 90 days past due or greater still accruing interest at December 31, 2019 and 2018, respectively.

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.

Note 5 | Allowance for Loan Losses (*Continued*)

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, 2019 and 2018.

(in thousands)	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 2,280	$ 2,381	$ -	$ 2,467	$ 178
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	445	445	-	497	46
Real estate - residential non-owner occupied	868	868	-	671	52
Real estate - commercial	614	614	-	1,223	119
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial	3,513	3,513	1,716	4,292	26
Real estate - construction	-	-	-	-	-
Real estate - residential owner occupied	131	131	14	52	3
Real estate - residential non-owner occupied	100	100	50	20	3
Real estate - commercial	-	-	-	-	-
Consumer	6	6	6	9	-
Total	$ 7,957	$ 8,058	$ 1,786	$ 9,231	$ 427

(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*)

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.

Loan modifications that were considered TDRs completed during the twelve month period ended December 31, 2019, are as follows:

(in thousands)	December 31, 2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	4	$ 2,275	$ 2,275
Real estate - construction	-	-	-
Real estate - residential owner occupied	-	-	-
Real estate - residential non-owner occupied	-	-	-
Real estate - commercial	2	339	339
Consumer	-	-	-
Total troubled debt restructurings	6	$ 2,614	$ 2,614

Modification determined to be concessions granted by management were in the form of interest only loan payments until maturity and re-amortization and extension of terms with rate adjustments. No loan modifications considered TDRs were completed during the twelve month period ended December 31, 2018.

Amounts within the allowance for loan losses allocated to TDRs are $206,000 and $311,000 at December 31, 2019 and 2018, 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. Foreclosed assets were $21,000 at December 31, 2019. There were no foreclosed assets remaining as of December 31, 2018. As of December 31, 2019, the Company has initiated formal foreclosure proceedings on $338,000 of consumer residential mortgages, which have not yet been transferred into foreclosed assets.

Note 6 | Premises and Equipment

Ongoing additions to premises and equipment are recorded at cost. Occupancy and equipment expense includes depreciation expense of $389,000 and $519,000 for the years ended December 31, 2019 and 2018, 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 2019 amounted to $49,000, and resulted in a net gain on disposal of $15,000.

Premises and equipment were comprised of the following:

(in thousands)	2019	2018
Land	$ 3,256	$ 3,256
Buildings and improvements	2,723	2,663
Leasehold improvements	1,765	1,634
Furniture, fixtures, and equipment	3,485	2,633
Construction in process	1,531	92
Subtotal	12,760	10,278
Less: accumulated depreciation	(4,179)	(3,839)
Premises and equipment - net	$ 8,581	$ 6,439

Commitments payable related to renewing branch ATMs and adding Cash Recyclers, amounted to $128,000, and commitments payable related to computer network equipment and services amounted to $17,000.

Note 7 | Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 "*Leases*" *(Topic 842)* and all subsequent ASUs that modified Topic 842.

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branch buildings, land, an operations building, and loan production offices with terms extending through 2044. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheet as a right-of-use ("ROU") asset and a corresponding lease liability. The Company has two finance leases, a branch building and a land lease on which the Bank just completed building a branch.

The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the Consolidated Balance Sheet. The following table represents the Consolidated Balance Sheet classification of the Company's ROU assets and lease liabilities at December 31, 2019.

(in thousands)	Classification	
Lease right-of-use assets		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 3,834
Finance lease right-of-use assets	Premises and equipment, net	5,472
Total lease right-of-use assets		$ 9,306
Lease liabilities		
Operating lease liabilities	Long-term debt	$ 3,849
Finance lease liabilities	Long-term debt	5,631
Total lease liabilities		$ 9,480

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 | **Leases** (*Continued*)

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used. For the Company's finance leases, the Company utilized its incremental borrowing rate at lease inception.

	December 31, 2019
Weighted-average remaining lease term	
Operating lease	6.6 years
Finance lease	21.2 years
Weighted-average discount rate	
Operating lease	5.21%
Finance lease	5.84%

The following table represents lease costs and other lease information. The short-term lease cost represents copier leases that expire in 2020. The variable lease cost primarily represents variable payments such as common area maintenance and utilities.

(in thousands)	Year Ended December 31,	
Lease costs		
Finance lease cost		
Amortization of right-of-use asset	$	219
Interest expense		264
Operating lease cost		660
Short-term equipment lease cost		13
Variable lease cost		4
	$	1,160

Future minimum payments for finance leases and operating leases with initial or remaining terms of one year or more as of December 31, 2019 are as follows:

(in thousands)	Finance Leases		Operating Leases	
2020	$	405	$	748
2021		407		774
2022		413		778
2023		420		739
2024		431		701
Thereafter		8,133		865
Total future minimum lease payments	$	10,209	$	4,605
Amounts representing interest		(4,578)		(756)
Present value of net future minimum lease payments	$	5,631	$	3,849

Note 8 | Deposits

Centric's deposits were comprised of the following:

(in thousands)	2019	2018
Demand, non-interest-bearing	$ 109,799	$ 93,685
Demand, interest-bearing	172,538	120,893
Savings	7,058	7,506
Money market	147,130	99,586
Time deposits	245,535	264,515
Total deposits	$ 682,060	$ 586,185

Scheduled maturities of time deposits are as follows:

(in thousands)	2019
2020	$ 195,895
2021	29,201
2022	5,816
2023	14,493
2024	130
Total time deposits	$ 245,535

Time deposits in denominations greater than $250,000 totaled $115,251,000 and $112,223,000 for December 31, 2019 and 2018, respectively.

Note 9 | Short-Term Borrowings

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

	At December 31,	
(in thousands)	2019	2018
Balance	$ -	$ 15,500
Maximum indebtedness at any month end	18,000	42,604
Average balance during year	3,516	18,558
Average rate paid for the year	2.41%	2.27%
Interest rate on year-end balance	0.00%	2.44%

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 174 days for the year ended December 31, 2019. The average maturity was 114 days for the year ended December 31, 2018.

Note 10 | Long-Term Debt

As one avenue for funding, the Bank is approved by the FHLB for borrowings of up to $310,369,000 of which $44,955,000 was outstanding in the form of advances and $42,000,000 was outstanding in the form of letters of credit at December 31, 2019. Advances from the FHLB are secured by qualifying assets of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 | Long-Term Debt (*Continued*)

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, 2019 and 2018, with a rate of 4.85 percent, maturing in April 2022.

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

	Principal Amount		Weighted Average Rate	
(in thousands)	2019	2018	2019	2018
FHLB advances - fixed	$ 44,955	$ 14,500	2.21%	2.24%
Subordinated debt	10,000	10,000	5.11%	5.11%
Other borrowings	6,000	6,000	4.85%	4.85%
Total Long-term debt	$ 60,955	$ 30,500	2.94%	3.69%

The aggregate amount of future principal payments required on these borrowings at December 31, 2019, is as follows:

(in thousands)	
2020	$ 6,000
2021	28,000
2022	16,955
2023	-
2024	-
Thereafter	10,000
	$ 60,955

Note 11 | 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, 2019 and 2018, expense attributable to the plan amounted to $166,000 and $143,000, respectively. These expenses are included in salaries and employee benefits on the Consolidated Statement of Income.

Supplemental Executive Retirement Plan

The Company maintains 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.

Note 11 | Stock Plans and Other Employee Benefits (*Continued*)

The deferred compensation charged to expense totaled $123,000 and $70,000 for the year ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the total accrued liability is $193,000.

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.

The number of shares available for grant at December 31, 2019 was 176,119.

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, 2019, and the activity that occurred during the year consisted of the following:

	Options	Weighted-Average Exercise Price
Outstanding at the beginning of the year	131,171	$ 6.56
Granted	16,000	10.40
Exercised	(16,936)	5.76
Forfeited	(10,217)	6.51
Outstanding at the end of the year	120,018	$ 7.19
Exercisable at December 31, 2019	105,142	$ 7.02

At December 31, 2019, the aggregate intrinsic value of all options is $308,000 and $286,000 outstanding and exercisable, respectively. At December 31, 2019, the weighted-average remaining life of outstanding options is 5.55 years and exercisable options is 5.21 years. Stock options of 16,936 and 44,388 were exercised at a weighted average price of $5.76 and $5.57 during 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, stock option compensation expense of $31,000 and $20,000 was recognized in connection with the option plan, respectively. A tax benefit of $6,000 and $3,000 was recognized relative to these stock options at December 31, 2019 and 2018, respectively. As of December 31, 2019, related future compensation expense is $20,000 and $5,000 for 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, 2019 and 2018. 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 2019 and 2018, no warrants vested and the Company recorded no compensation expense associated with these grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 | Stock Plans and Other Employee Benefits (*Continued*)

The fair value of the options granted for the years ended December 31, 2019 and 2018, 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						
2019	**$10.40**	**0.00%**	**9.86%**	**5**	**2.26%**	**$1.53**
2018	9.25	0.00%	9.14%	5	2.83%	1.47
Employee stock options						
2018	11.55	0.00%	9.48%	6.5	2.80%	2.25

Restricted Stock
As of December 31, 2019, over the life of the plans, the Company has awarded 49,688 and 37,457 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	36,197	$ 7.46
Granted	21,260	9.86
Vested	(13,500)	6.10
Forfeited	(1,968)	11.07
Non-vested shares at the end of the year	41,989	$ 8.95

For the years ended December 31, 2019 and 2018, compensation expense of $123,000 and $71,000 was recognized in connection with the vesting of restricted stock, respectively. Tax benefits of $26,000 and $15,000 were recognized relative to these shares at December 31, 2019 and 2018, respectively. Future compensation expense related to non-vested restricted stock at December 31, 2019 is $112,000, $80,000 and $4,000 in 2020, 2021 and 2022, 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, 22,666 shares have been issued. The number of shares issued during 2019 and 2018 was 7,443 and 6,811, respectively.

Note 12 | Federal Income Taxes

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

(in thousands)	2019	2018
Currently payable	$ 2,260	$ 2,412
Deferred taxes	(372)	(403)
Total income tax expense	$ 1,888	$ 2,009

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

(in thousands)	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 1,742	$ 1,452
Stock incentive expense	52	40
Uncollected interest	25	1
Unrealized losses on securities available-for-sale	-	11
Unrealized losses on securities held-to-maturity	8	10
Loan origination fees, net	318	218
Lease right-of-use	36	-
Supplemental retirement	40	15
Other	97	92
Total deferred tax assets	2,318	1,839
Deferred tax liabilities:		
Goodwill and core deposit intangible	86	77
Prepaid expenses	44	94
Unrealized gains on securities available-for-sale	13	-
Premises and equipment	163	3
Other	7	6
Total deferred tax liabilities	313	180
Net deferred tax assets	$ 2,005	$ 1,659

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)	2019	2018
Computed statutory tax expense	$ 1,926	$ 2,103
Other, net	(38)	(94)
Total income tax expense	$ 1,888	$ 2,009

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 | Federal Income Taxes (*Continued*)

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 2016.

Note 13 | 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, 2019, loans to related parties were $2,680,000 and deposits by related parties totaled $5,429,000. At December 31, 2018, loans to related parties were $3,182,000 and deposits by related parties totaled $5,675,000.

Related-party loan activity is summarized as follows:

(in thousands)	December 31, 2019	December 31, 2018
Balance at the beginning of the period	$ 3,182	$ 5,431
Additions	282	4,206
Reductions	(784)	(553)
Changes in related parties	-	(5,902)
Balance at the end of the period	$ 2,680	$ 3,182

All of Centric's directors are customers of the Bank. As of December 31, 2019, Centric's shareholders number 326, 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, 2019 and 2018, related-party transactions include $1,000 and $1,000 of purchases, respectively. There was no revenue generated on related-party transactions for any of the periods listed.

Note 14 | 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)	2019	2018
Commitment to grant loans	$ 4,185	$ 5,841
Unfunded commitments under lines of credit	123,947	96,024
Standby letters of credit	10,769	13,994
Total unfunded lending commitments	$ 138,901	$ 115,859

Note 14 | Unfunded Credit Commitments (*Continued*)

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

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

Outstanding letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third-party 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 15 | 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, 2019 and 2018, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2019, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 | Regulatory Matters (*Continued*)

The Company and the Bank's capital ratios as of December 31, 2019 and 2018, are presented below:

(in thousands)	December 31, 2019					
	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	$ 95,539	13.17%	$ 58,034	8.00%	$ N/A	N/A
Bank	98,902	13.63%	58,050	8.00%	72,562	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	77,064	10.62%	43,539	6.00%	N/A	N/A
Bank	90,427	12.47%	43,509	6.00%	58,013	8.00%
Common equity tier 1 capital (to risk-weighted assets)						
Company	77,064	10.62%	32,654	4.50%	N/A	N/A
Bank	90,427	12.47%	32,632	4.50%	47,135	6.50%
Tier 1 capital (to average assets)						
Company	77,064	9.71%	31,746	4.00%	N/A	N/A
Bank	90,427	11.41%	31,701	4.00%	39,626	5.00%

(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%

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 16 | Fair Value Measurements

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

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

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

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

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

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2019 and 2018, 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, 2019			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	$ -	$ 8,038	$ -	$ 8,038
Government sponsored mortgage-backed securities	-	21,827	-	21,827
Fair value measured on a non-recurring basis:				
Other real estate owned	-	-	21	21
Impaired loans	-	-	1,882	1,882

(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

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

Note 16 | **Fair Value Measurements** (*Continued*)

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, 2019 and 2018, the fair values shown above exclude estimated selling costs of $49,000 and $46,000.

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 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 year ended December 31, 2019, one property was included in OREO and was written down at the time of foreclosure, therefore, it is considered to be carried at fair value. At December 31, 2018 no properties remained in OREO.

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, 2019 and 2018.

December 31, 2019
Quantitative Information about Level 3 Fair Value Measurements

(in thousands)	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	$ 1,882	Appraisal of collateral	Appraisal adjustments	0% - 60%	13.44%
			Liquidation expenses	0% - 20%	3.74%
			Holding period	0 – 122 Months	
Other real estate owned	21	Appraisal of collateral	Appraisal adjustments	0% - 20%	20.00%
			Liquidation expenses	0% - 16%	15.15%

December 31, 2018
Quantitative Information about Level 3 Fair Value Measurements

(in thousands)	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	

Note 17 | 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, 2019				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Securities held to maturity	$ 4,009	$ 4,068	$ -	$ 3,724	$ 344
Net loans	694,850	694,989	-	-	694,989
Loans held for sale	1,687	1,687	1,687	-	-
Mortgage servicing rights and credit enhancement fees	1,337	1,346	-	-	1,346
Financial liabilities:					
Time deposits	$ 245,535	$ 246,227	$ -	$ -	$ 246,227
Finance lease liability	5,631	7,030	-	-	7,030
Long-term debt	60,955	61,152	-	-	61,152

(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

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.

Note 18 | Adoption of Accounting Policies

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. The new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 | Adoption of Accounting Policies (*Continued*)

The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606.

The new leases standard addresses other considerations including identification of a lease, separating lease and non-lease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and re-measurement of lease payments.

ASU 2016-02 became effective for us on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842)*, which provided an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. In July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842) - Targeted Improvements*," which, among other things, provided an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, "*Leases (Topic 842) - Narrow-Scope Improvements for Lessors*," which provided for certain policy elections and changed lessor accounting for sales and similar taxes and certain lessor costs. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which addresses 1) determining the fair value of the underlying asset by the lessor that are not manufacturers or dealers (generally financial institutions and captive finance companies), and 2) lessors that are depository and lending institutions should classify principal and payments received under sales-type and direct financing leases within investing activities in the cash flow statement

Upon adoption of ASU 2016-02, ASU 2018-01, ASU 2018-11, ASU 2018-20, and ASU 2019-01 on January 1, 2019, the Bank recognized right-of-use assets and related lease liabilities totaling $5,720,000 and $5,703,000, respectively. Additionally, the Bank entered into a new land lease and a new building lease during 2019, as well as renting additional space in existing leased buildings. These additions to right-of-use assets and related lease liabilities totaled $3,933,000 and $3,932,000, respectively.

The Bank elected to apply certain practical expedients provided under ASU 2016-02 and, therefore, did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Bank did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Bank accounts for lease and non-lease components separately because such amounts are readily determinable under the lease contracts. The modified-retrospective transition approach was utilized prescribed by ASU 2018-11 at the time of adoption. As of December 31, 2019, the Company has several lease agreements, such as building leases for branch, operations, and loan production offices, as well as a land lease. Four of the leases are considered operating leases and two are finance leases.

Note 19 | 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 1922, 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 20 | Subsequent Events

Management has reviewed events occurring through March 19, 2020, the date the financial statements were issued, and no subsequent events have occurred requiring accrual or disclosure.

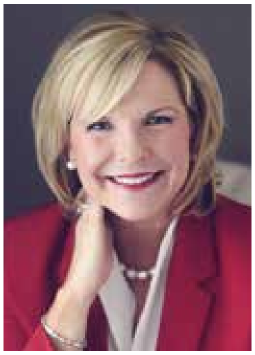
Front row (*left to right*): Nicole S. Kaylor, Attorney, McNees Wallace & Nurick, LLC; Patricia A. Husic, President & CEO, Centric Financial Corporation and Centric Bank; Donald E. Enders, Jr., Chairman of the Board, President & CEO, Colonial Park Realty Company, t/a Enders Insurance Associates; and Jeffrey W. Keiser, DDS, Progressive Dental Concepts, LLC.

Back row (*left to right*): Kerry A. Pae, Secretary for Centric Financial Corporation, President & Owner, Kerry Pae Auctioneers, Inc.; John A. Maher, CPA, Vice Chairman of the Board, Fellow, Cambridge University, U.K.; Thomas H. Flowers, CPA, Managing Partner, Flowers & Flowers CPAs; Frank A. Conte, CLU, ChFC, Founding Partner, Conte Wealth Advisors, LLC; and Steven P. Dayton, Business Development, RVG Management & Development Company, P.C.

E X E M P L A R Y

VISION

SENIOR LEADERSHIP TEAM



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Sandra J. Schultz, EVP
Chief Financial Officer

William T. McGrath, EVP
Chief Credit Officer

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

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Chief Risk Officer

Leslie A. Meck, SVP
Chief Retail Officer

Christine Pavlakovich, SVP
Chief Human Resources Officer

SENIOR LENDING TEAM

***Left to right*:**
Jacqueline M. Fahey, SVP, Bucks County Market Leader; Kevin M. Boland, SVP, Lancaster Market Leader; Christopher J. Bickel, SVP, Main Line Market Leader; Donald J. Bonefede, SVP, Senior Commercial Lending Officer; and Michael J. Watson, SVP, Senior Commercial Lending Officer.

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Centric Bank Members: Flow Lynch, AVP, Branch Operations Manager & Security Officer; Katrina Taughinbaugh, Loan Servicing Specialist; Mike St. Hilaire, Portfolio Manager; Nicole Cooper, Branch Operations Analyst; Sean Burns, VP, Commercial Lending Officer (not pictured).

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  Derry Township Financial Center Senior Mgr.
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- Joanne F. Cicino
  Devon 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.

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  Director of Cash Management and Treasury Services
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  Cash Management Sales Officer
- Mark A. Holst, AVP
  Cash Management Customer Care Officer

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- Gethan K. Wilson, VP
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- Bruce E. Straub, VP
  Senior Business Development Officer
- Molly R. O'Keefe, AVP
  Business Development Officer

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- Stacey C. Cammack
  Senior Compliance Analyst

PURPOSE IS NOT A LINE ITEM ON OUR BALANCE SHEETS. IT'S THE VERY REASON 138 PEOPLE BRING THEIR HEARTS, MINDS, AND CURIOSITY TO WORK EVERY DAY!

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Sat 8:30 a.m. to 12 noon

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(267) 880-4250

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Concierge Services
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OUR MISSION

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

OUR VISION

We aspire to become the locally owned, independent, community bank of choice for small and medium-size businesses, professionals, and individuals in 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
- Janney Montgomery Scott LLC
  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
- JWTT, Inc.
  1231 NW Hoyt Street, Suite 206
  Portland, OR 97209

Registrar & Transfer Agent

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

Purpose is at the heart of our strategic mission and the good of the customer informs our every decision and service. We have created an environment where meaningful relationships, deep business conversations, and uninterrupted personal attention are *de rigueur*. Small business success stories from central Pennsylvania to Philadelphia to New Jersey are the wayfinding signs of our journey. As *Partners in Growth*, our customers share our passion to build an engaged community and a vision others can believe in.

CFCX

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