

CENTRIC BANK

ANNUAL REPORT 2007

progressive
Leaders

principle
strong

people
Rich

Powerful
Advisors

Portfolio
Smart





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TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS

At Centric Bank, our tagline is more than an equation for good banking; it's a promise of good stewardship: *We Revolve Around You*. Growing your earnings and investments truly begins at the local level; in fact, it begins in our backyard of Dauphin and Cumberland counties. Community banking is not only alive and well, it is tomorrow's success story.

Our first annual report is an educational and accountability vehicle to our shareholders, as well as an opportunity for us to have a personal conversation with you—our shareholders, customers, and friends.

2007 was a dynamic year for Centric Bank. Our evolution from Vartan Bank to Centric Bank was finalized on March 7, 2007, when we changed our name, began an ambitious strategy to rebrand and reintroduce ourselves to the community, and provided a new chemistry in the community bank world—the Centric way of banking.



To successfully design and build a new regional bank, one has to attract significant shareholders. In less than 60 days, we secured 125 shareholders—men and women who believe in our principles, platform, and strategic vision. We endeavor to deliver a significant return on those investments of resources, time, and wisdom.

Although we carefully track the market and its impact on our customers, our most treasured possession at Centric Bank is not our expertise, it's the relationships within our sphere of influence. Amazing relationships with the bank, the community, the customers, our employees, and our shareholders.

We know firsthand that trust is our most important commodity; and it is trust that strengthens the bonds of our relationships.

In addition to the finest high-touch service in the industry, we have added Digital Deposit to our suite of products. No more interruptions for you or your employees—we bring the convenience and mobility of banking to you. We offer a daily courier service to illustrate that we truly do *revolve around you*. We understand the value of talking to a decision maker and receiving the results you expect and deserve: that's why you can reach our CEO and other banking professionals at Centric through their direct lines at most hours of the day.

At Centric, local people are making local decisions. We understand personal finances and the challenges and rewards of running a business. In 2007, we increased our lending portfolio by booking \$39.4 million in gross loans. The deposit base also increased by \$3.60 million or 5.8%. Loans to and deposits from our shareholders totaled \$17.3 million and \$10.6 million, respectively. We are pleased to report that 40% of our shareholder base is now translated into customers of Centric Bank. These new relationships assist us in strengthening our personal and community bonds as well as building stronger business relationships. Our goal is to deliver a return to our shareholders, but we're also delivering talk-of-the-town service to our customers.

Energized and confident, we are entering a new season of banking at Centric by positioning our corporate headquarters at the highly visible and accessible site of Linglestown and Colonial Roads—the epicenter of a growing region.

Our roots and our bankers are deeply intertwined in the community. We were privileged to participate in the following community events and activities this past year: The Second Mile's Celebration of Excellence with Cal Ripken, Jr.; the Light the Night Walk for the Leukemia and Lymphoma Society; the Business Women's Forum; area chamber of commerce events; Colonial Park Rotary; The ARC of Dauphin and Lebanon Counties; Hummelstown Baseball and Softball Association; Steelton Economic Development Corporation; Junior Achievement; sponsorship of Bishop McDevitt, Central Dauphin, and Susquehanna Township high schools; Gaudenzia, Inc.; United Disabilities Services; Toys for Tots; and Big Brothers Big Sisters. We believe it is essential to give back to the community where you live and work as evidenced by our board, management, and colleagues at Centric.

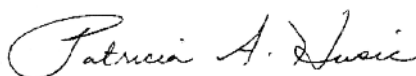
We are **Principle Strong**, **People Rich** and **Portfolio Smart**. Compound these critical business elements with our **Powerful Advisors** and **Progressive Leaders**, and Centric Bank becomes your best financial solution.

Look for our signature logo and the revolving atom in new and surprising places. Consider us your catalyst for personal, family, business, and retirement success. We thank you for joining us on this journey. The board of directors, management, and staff of Centric Bank are enthusiastically working to serve our customers' needs. Our goal as we enter the New Year continues to be:
We Revolve Around You.



DONALD E. ENDERS, JR.

Chairman of the Board



PATRICIA A. HUSIC

President & CEO



NEW CORPORATE HEADQUARTERS +
NEW DIGITAL DEPOSIT +
NEW CHEMISTRY OF BANKING WITH CENTRIC BANK =

AN EQUATION FOR GREAT BANKING

We Revolve Around You is more than a branding message; it's a promise. We intend for our 34 employees at three branches to deliver on that promise, and we intend for you, our customers, to hold us to that promise. Good banking is service-based and customer-centric. *Great banking* is based on chemistry—the experience of depositing your money with an institution, that first touch point and its impression, responsiveness to emails, helpful branch associates, welcoming administrative assistants, and timely direct mail loan opportunities. We want to provide great banking and that begins with our **Principles**.

WE ARE PRINCIPLE STRONG

The decision makers and lending officers at Centric Bank create loan packages that are leading edge, competitive, and designed for your growth, yet grounded in our strong principles. How we do business is nearly as important as the benefits you receive from doing business with Centric Bank.

Although Centric Bank is celebrating its one-year anniversary, the CEO, Patricia A. Husic, is an industry leader with 22 years of financial services expertise. Patti not only demonstrates strong principles when working with colleagues, management, and customers, but the Harrisburg Regional Chamber and its 1,900 members recognized her principles and gold standard of excellence by presenting her with the 2007 Athena Award on November 28, 2007.



We trust our principles are clear to every customer from the moment you enter our facilities or speak to a Centric 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 their business relationships. Our goal is to build relationships. *We Revolve Around You.*

We also believe that small business is the engine of our economy and wherever we can partner with business owners, we seize the opportunities. To continually fuel our nation's communities and families, our small businesses often need more than executive lines of credit or capital improvement loans. They count on our business advice and depend upon our willingness to assist them every step of the way.



"Centric Bank and Stratis Gayner Plastic Surgery got off the ground at the same time—we are enjoying the privilege of growing together. As both my personal and professional needs have required capital improvements, Centric Bank has been there to help.

Since I am in the operating room very early in the morning and don't have time to drop by a branch, I have found Centric Bank's willingness to come to my office as the most impressive aspect of their customer service. I am confident that Centric will be there for my banking needs now and in the future."

DR. SCOTT GAYNER
Stratis Gayner Plastic Surgery

"Finding the best financing opportunities to grow a business can be challenging, but our relationship with Centric Bank has taken our business to the next level and helped us become more profitable. We were privileged to be Centric's first loan in 2007; we especially appreciate the local decision-making power and the incredibly quick turnaround times for loan decisions and financing."

JAY ZEIGLER
President
CREED STAMMEL
Vice President,
Marketing
CJ Pony Parts



"The Centric team has taken a genuine interest in getting to know us and in developing a depth and breadth of knowledge about our business. Patti Husic, Jeff Myers, and Don Enders have all played a major role in our growth. These dynamic individuals are the culture of Centric Bank which is defined by propelling small businesses into the marketplace and helping them maximize their potential. Our company would not be where it is today without the support of Centric Bank."

MICHAEL VESPIGNANI

President
ServiceMaster



WE ARE PEOPLE RICH

Our customers are our *raison d'être*. Because of you, we purchased Vartan Bank and simultaneously established Centric Bank. Your lending needs, enterprise goals, and wealth creation are preeminent for us. You are never a tracking number or deposit balance; you are a prized individual whom we desire to accommodate and guide to success and financial independence with our collective resources. We have developed a coveted chemistry with our "people," and we appreciate your feedback in areas where we can serve you better, faster, or more personally.

WE ARE PORTFOLIO SMART

With an eye on sustaining our long-term goals of creating economic stability, deepening the financial reserves of clients, and offering a balanced formula of client-focused products and services, Centric Bank is positioning the right assets in the right places. Our portfolio equation involves strategy, experience, and instinct—all vital elements of our management team which has a combined 130 years of experience in finance, economics, and banking.

Our team leaders enhance that special chemistry with clients through the knowledge and strategy they deliver to help lead individuals in the right direction for their business and personal banking needs.

In addition to well-researched financial guidance, our financial portfolio—our lending base—has grown 18.3% to \$58.9 million. That's an impressive trajectory given our recent acquisition date of February 8, 2007.

"When we were first introduced to Centric's predecessor, we were delighted with the level of service and the ease of doing business with a flexible bank. Our best year was when Centric acquired its ownership, and I was delighted with the opportunity to become a shareholder. Having compared services and financing opportunities for a small business between large and small banks, I have to state there's *no contest!* At Centric Bank, you're surrounded with first-class management talent, especially in its president, Patti Husic, and its outstanding board of directors, combined with a staff who can't do enough for you. I'm proud to be a customer and shareholder."

ERNEST A. JONES, JR.

President, CEO
Transcorpis Enterprises, Inc.

“Like Centric Bank, Daley Zucker Meilton Miner & Gingrich, LLC (DZMMG) has undergone significant change and growth in a very short period of time. In its four-year history, the firm had previously banked with several other financial institutions, each of which touted its ability to customize services to fit the needs of currently small, but quickly growing and emerging businesses, such as ours. However, our experiences with these institutions quickly demonstrated otherwise. Too often we were expected to fit our financial needs and expectations into already established programs and services developed for businesses that were quite unlike our own.

Centric Bank, on the other hand, immediately saw the firm’s potential and wanted to grow along with us—in essence, committing to being the long-term financial partner we sought. Centric Bank first demonstrated that commitment by meeting extraordinarily tight deadlines to position the firm’s new financing and accounts in a virtually seamless manner. Centric also made clear that it intended the firm, over the long haul, to have access to the resources necessary to fund its anticipated, continued growth. Centric Bank has lived up to, or exceeded, our expectations in these regards.”

KATHLEEN MISTURAK-GINGRICH, ESQUIRE

Daley Zucker Meilton Miner & Gingrich LLC



WE ARE POWERFUL ADVISORS

Money is power, and how a financial institution leverages its power gives customers the opportunity to build a business, buy a home, begin a future, expand office space, or give back to the community. Critical to developing strong and deep financing relationships is the level and depth of advisory services we offer. Many of our business customers depend on Centric’s experienced management team’s suggestions of ways to streamline cash flow efficiencies, leverage equity, purchase lines of credit, and bolster retirement savings.

“As a community bank that does business locally with small business owners, we are acutely aware of the costs and benefits of operating a small business. We provide guidance to new business owners and suggest effective methods to conduct their businesses more smoothly, so they can concentrate on doing what they do best—running and growing their business. We sit down and examine their budgets and make cash flow projections. We offer managerial knowledge on the importance of sustained invoicing and measuring budgets versus actual income reports on a monthly basis. In addition, we are partnered with the Conte-Browne Group, an investment services firm for financial planning, retirement savings, and 401K services,” said Husic.

"We couldn't be happier in our partnership with Centric Bank! They championed us when we needed financing for our new venture, Palm Beach Tan. Centric presented a great package in a very timely manner and was able to get the documents and funding completed quickly and easily. As a woman-owned business, an added bonus for us was doing business with a bank that has a woman at the helm—Patti Husic. *Centric's customer service is unbeatable. We have easy access to all of our accounts on their Web site and they come to our office for weekly deposits.*"

TRISH GREENBERG

Owner

Movie Merchants, Inc. –
A Franchise of Blockbuster Inc.;
Tansations, Inc. – A Franchise
of Palm Beach Tan, Inc.



WE ARE PROGRESSIVE LEADERS

Centric's very leadership displays its "disposition for change." As the only female bank president in south central Pennsylvania, Patti Husic embraces innovation wherever a return is measurable. Ground has been secured at Linglestown and Colonial Roads for the new corporate headquarters, which is not only highly visible, but at the epicenter of a growing region.

"We are continually researching new avenues to deliver even more personalized and more convenient banking services. Our Digital Deposit is an exciting roll-out of our efforts," said Husic.

The Centric leadership also reports to and values the collective wisdom of a 12-person board of directors. They bring a combined 300 years of experience to the bank and help hone the mission and purpose of the bank's service.

Energized by our growth and the highly valued "chemistry" with our customers, we look forward to an ambitious year of greater service, stronger products, and dynamic solutions for you.

The Centric team provides a banking equation that ensures sustainable investments and a consistent, disciplined focus on long-term economic growth. *We Revolve Around You.*





LENDING TEAM

Seated: Patricia A. Husic, President & CEO; Jeffrey W. Myers, EVP – Chief Lending Officer

Standing (left to right): Michael J. Watson, VP – Commercial Lending; Doris K. Ney, SVP – Chief Credit Officer



SENIOR MANAGEMENT

Seated: Patricia A. Husic, President & CEO; Jeffrey W. Myers, EVP – Chief Lending Officer

Standing (left to right): Shane E. McNaughton, SVP – Management Information Systems; Dwight N. Kreiser, SVP – Chief Financial Officer; Doris K. Ney, SVP – Chief Credit Officer; Jamie L. Nelson, SVP – Chief Retail Officer

BOARD OF DIRECTORS

Facing page, seated: Kerry A. Pae – 1st Vice Chairman; Donald E. Enders, Jr. – Chairman of the Board; Patricia A. Husic, President & CEO

Facing page, standing: (left to right) Dr. Jeffrey Keiser; Frank A. Conte; Thomas H. Flowers, CPA; Jeff Foreman, Esquire; Renee J. Conner; John A. Maher, CPA – 2nd Vice Chairman; Steven P. Dayton; Fred M. Essis; Robert V. Gothier, Sr.



2007 FINANCIAL OVERVIEW

Please note that in this discussion we have made forward-looking statements that are subject to risks and uncertainties. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995. These statements include information concerning the future financial results of Centric Financial Corporation and Centric Bank. Many factors could affect these future results including economic, political, regulatory, or operating risks. In addition, competition and rapidly changing technology could impact our future operations. Our analysis of these risks may also be incorrect and our strategies to address them may be ineffective.

BANK ACQUISITION

Centric Financial Corporation acquired Vartan National Bank on February 8, 2007. The bank was subsequently renamed Centric Bank. In accordance with current accounting guidance, the assets and liabilities of the bank were recorded at their fair value on the date of acquisition. The difference between the total acquisition cost and the net fair value of assets and liabilities acquired was recorded as goodwill. Total goodwill amounted to \$493,000, or 5.6%, of the total acquisition cost. We believe this relatively small amount of goodwill reflects the solid value that was acquired with the bank.

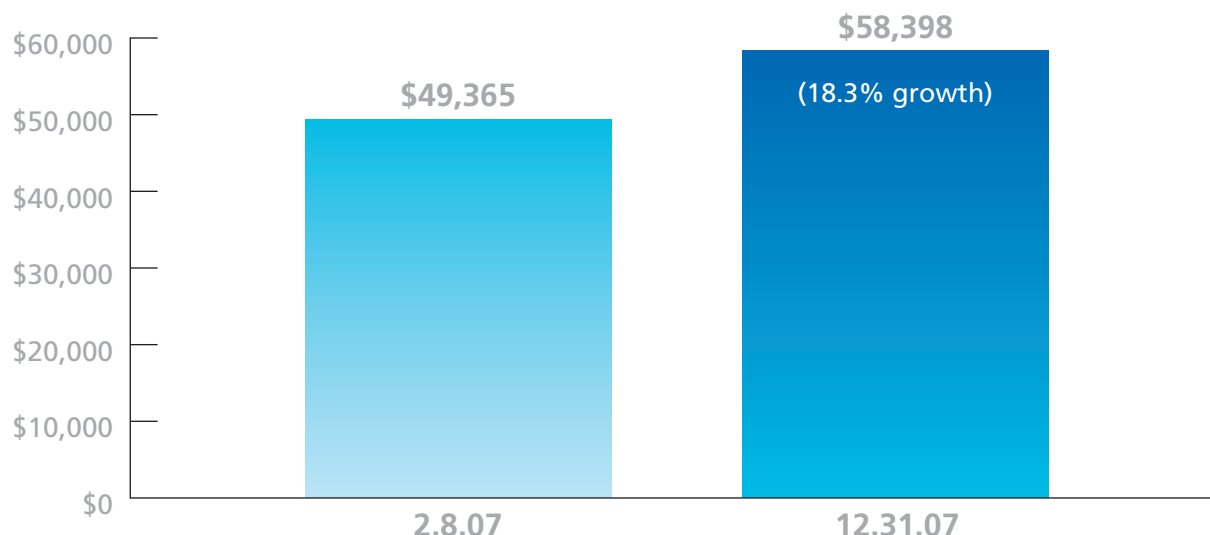
With the acquisition of the bank, we acquired a foundation on which we can build. A solid infrastructure including management, employees, technology, an established branch network, and customer base were all part of this acquisition. This provided us with a significant head start in comparison to forming a de novo bank. When starting a new bank organizers can spend more than a year preparing a bank for operations and obtaining required approvals, while expending significant financial resources. With the acquisition of an existing bank, we saved significant time and expense, but we also acquired some organizational history with built-in challenges. The bank has been subject to various regulatory restrictions since Vartan National Bank entered into a formal agreement with the Office of the Comptroller of the Currency (OCC) on July 12, 2006. For further discussion, please see the section titled Regulatory Supervision. In addition, with the acquisition of the bank we also acquired certain nonperforming loans. See the discussion below regarding Loan Quality.

FINANCIAL POSITION

Loans

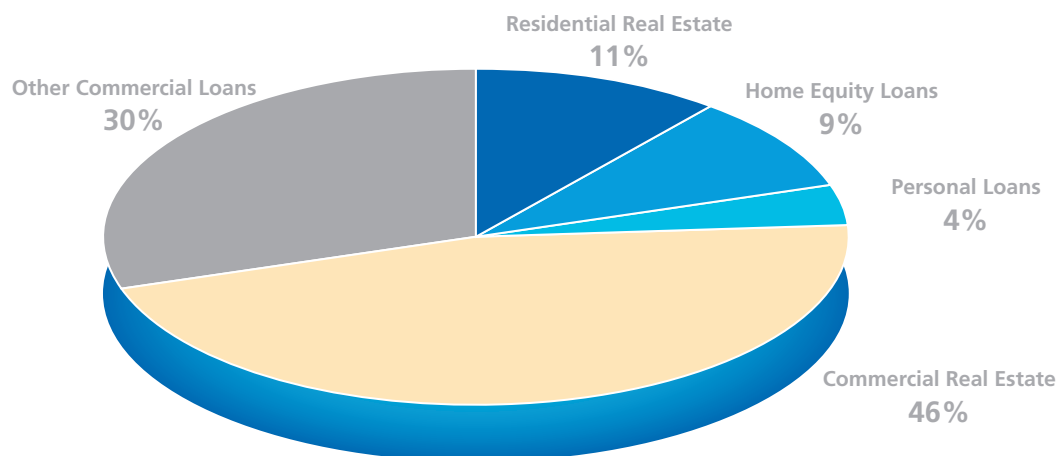
Centric Bank's primary earning assets are loans. As depicted in the following graph, loans have grown 18.3% since the acquisition of the bank.

CENTRIC FINANCIAL CORPORATION
TOTAL LOANS
(in thousands)



Our primary areas of strategic focus are loans to small- and medium-sized businesses and their owners. This focus is reflected in the level of commercial loans detailed in the following graph:

CENTRIC FINANCIAL CORPORATION
LOAN MIX AS OF DECEMBER 31, 2007

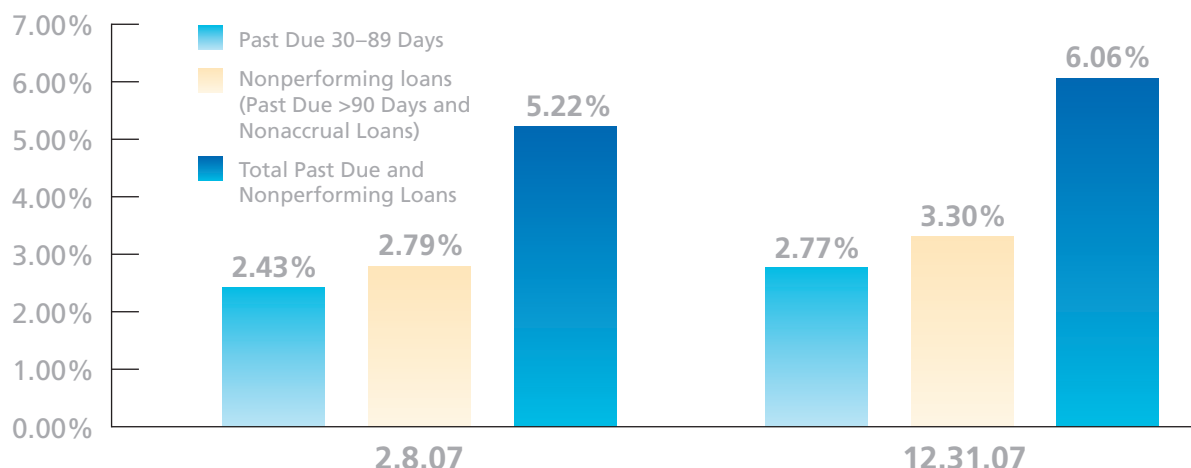


This concentration on commercial lending has been coupled with prudent loan underwriting standards and enhanced relationship monitoring.

Credit Quality

Enhanced loan underwriting and related controls will ensure the long-term maintenance of overall loan portfolio credit quality. However, some of the existing loans at the time of acquisition do not have the same level of credit quality due to historical weaknesses in loan underwriting and related controls that existed at Vartan National Bank. This has resulted in an elevated level of past due and nonperforming loans as reflected in the following graph:

CENTRIC FINANCIAL CORPORATION NONPERFORMING AND PAST DUE LOANS AS A % OF TOTAL LOANS



Nonaccrual loans (included in nonperforming loans above) have a negative impact on the bank's earnings as these are assets that require funding, but do not provide current income. These loans are primarily secured with real estate, and management believes that potential losses related to these loans have already been provided for in the allowance for loan losses as discussed further below. Management continues aggressive collection efforts with these nonaccrual loans; however, this collection process is extremely lengthy and is often delayed by bankruptcy proceedings. All nonperforming loans as of December 31, 2007, were originated prior to the acquisition of the bank.

It also should be noted that nearly 40% of the loan portfolio at December 31, 2007, is now made up of loans that have been originated since the acquisition of the bank. The balances of loans originated prior to the acquisition of the bank have declined by \$14.3 million. Some of this decline can be attributed to management's determination that certain borrowers do not meet the bank's current loan underwriting standards and these borrowers have chosen to obtain their financing elsewhere.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered by management to be adequate to provide for losses that can be reasonably anticipated. This evaluation is inherently subjective and requires significant estimates that are subject to change.

At the time of the bank acquisition, management thoroughly evaluated the bank's loan portfolio to ensure these assets were properly valued. Loans that were deemed to be uncollectible were written off and impaired loans were recorded at their estimated net recoverable value. In addition, management evaluated the overall adequacy of the allowance for loan losses to provide for risks in the acquired loan portfolio. Prior to the acquisition, \$143,000 of loans were charged off, and upon acquisition, impaired loans were written down by \$387,000 to reflect their estimated fair value.

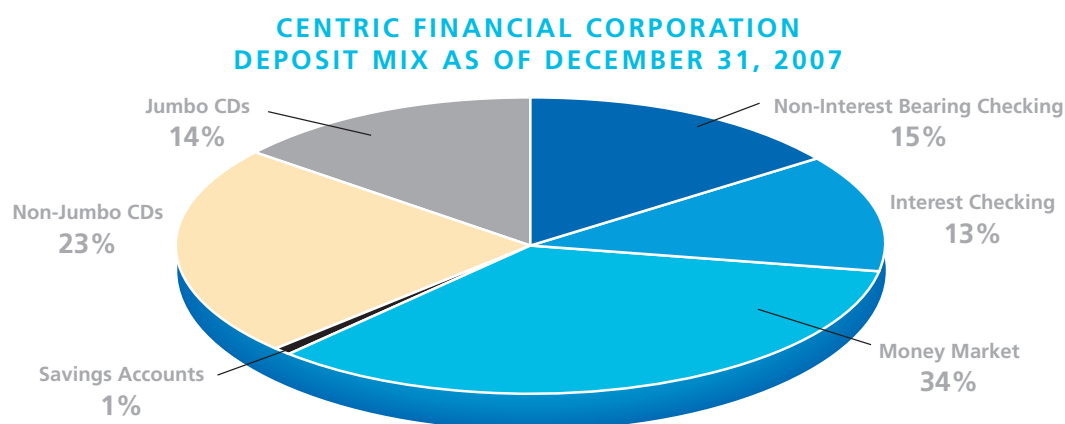
During 2007, the bank had net recoveries of \$41,000. In addition, there was \$64,000 collected on impaired loans in excess of their book value that was recorded as interest income. All charge-offs during 2007 were related to loans purchased with the acquisition of the bank.

Investment Securities

Periodically, the bank invests excess funds in investment securities. Investment securities are part of the bank's overall balance sheet management strategy. These investments serve as a source of liquidity through paydowns, sales, and maturities to fund future loan growth and are also utilized to secure public funds deposits as required by state law. These investments are an alternative to overnight federal funds investments and reduce the bank's exposure to falling interest rates. The bank's investment securities consist of U.S. agency- and mortgage-backed securities. These securities are all AAA rated and have a relatively short average life. Investments are thoroughly analyzed prior to purchase and the portfolio is subject to ongoing monitoring.

Deposits

The most critical source of funding for the bank is its deposit base. Historically, the bank had attracted a significant portion of its funding through high-cost certificate of deposit and money market specials. This deposit mix is slowly changing as we have pursued core deposit growth including acquiring deposit accounts with new loan relationships. The challenge remains to acquire enough deposits to fund loan growth at a reasonable overall cost. Following is a summary of the bank's deposit mix at December 31, 2007:



Borrowings

An additional source of funding for the bank is borrowings through the bank's membership in the Federal Home Loan Bank of Pittsburgh (FHLB). The FHLB provides a ready source of funding for the bank at flexible terms. These borrowings help the bank to balance interest-rate risk as longer-term funding can easily be acquired when it may be much more difficult to acquire longer-term certificates of deposit in the local market.

In addition to long-term borrowings, the bank has utilized letters of credit issued by the FHLB to collateralize public funds. These letters of credit are priced affordably and provide an alternative to using pledged investment securities. This flexibility has also allowed the bank to pursue larger municipal deposit relationships.

Stockholders' Equity

Our final source of funding is the investment of our stockholders. At the inception of Centric Financial Corporation, we had raised over \$11 million in capital. These funds were utilized to acquire the bank and provided an additional \$2.4 million of capital for the bank to support future asset growth.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the amount by which interest earned on loans, investment securities and other earning assets exceeds the interest paid on deposits and borrowings. This is Centric's main source of income and it is summarized in the following table for the period ended December 31, 2007:

CENTRIC FINANCIAL CORPORATION
DISTRIBUTION OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY
INTEREST RATES AND INTEREST DIFFERENTIAL
PERIOD ENDED DECEMBER 31, 2007
(amounts in thousands)

	Average Balance (1)	Interest	Rate (1)
ASSETS			
Deposits in Other Banks (2)	\$ 424	\$ 20	5.27%
Federal Funds Sold	13,410	614	5.11%
Investment Securities (3)	10,668	524	5.48%
Loans (4)	54,411	3,695	7.58%
Restricted Invest. – Bank Stocks	504	28	6.20%
Total Earning Assets	79,417	4,881	6.86%
Allowance for Loan Losses	(701)		
Other Nonearning Assets	4,306		
Total Assets	\$ 83,022		
LIABILITIES and STOCKHOLDERS' EQUITY			
Deposits			
Interest-Bearing Demand	\$ 33,244	\$ 1,095	3.68%
Savings	894	4	0.50%
Time	24,695	1,066	4.82%
Total Deposits	58,833	2,165	4.11%
Long-Term Debt	4,257	203	5.32%
Total Interest-Bearing Liabilities	63,090	2,368	4.19%
Demand Deposits	8,517		
Other Liabilities	454		
Total Liabilities	72,061		
Stockholders' Equity	10,961		
Total Liabilities and Stockholders' Equity	\$ 83,022		
Net Interest Income/Interest Rate Spread		\$ 2,513	2.67%
Net Interest Margin			3.53%

NOTES

- (1) Average balances are from the bank acquisition on 2/8/07 to the end of 2007. Yield calculations have been adjusted to reflect this partial year.
- (2) Excludes escrow account deposits and related earnings of \$88,000. These were funds deposited from capital contributions and earnings through the bank acquisition.
- (3) Balances reflect amortized historical cost for available-for-sale securities. The related average unrealized holding gain or loss on securities is included in other nonearning assets.
- (4) Balances of nonaccrual loans and related income recognized have been included for computational purposes. Includes loan fee income of \$28,100.

Management strives to limit exposure to changes in interest rates through prudent structuring of interest-bearing assets and liabilities. This is accomplished through the promotion of various loan and deposit products and the purchase of certain investment securities or the structure of borrowings. Interest-rate risk is measured on a quarterly basis. These current measurements do not indicate significant exposure to rising or falling interest rates. Recently, in response to deterioration in economic conditions, the Federal Reserve has been reducing short-term interest rates. These actions have also prompted a decline in overall market interest rates. The federal funds target rate was reduced from 5.25% at the beginning of 2007 to 2.00% in April 2008. These rate reductions have impacted the yield on Centric's earning assets. Largely offsetting this impact have been significant reductions that have been made to deposit rates and lower borrowing rates. In addition, certain variable-rate loans have interest-rate floors and have not been fully impacted by these rate reductions.

Provision for Loan Losses

Centric's provision for loan losses amounted to \$102,000 for the year. The provision for loan losses is an estimated expense to provide for losses attributable to uncollectible loans. The provision is based on management's analysis of the adequacy of the allowance for loan losses and is impacted by the level of net charge-offs, loan growth, and estimated changes in credit risk on specifically identified loans and the overall loan portfolio. The evaluation is subjective and involves significant estimates that are subject to change.

Other Operating Income

Other operating income consists primarily of service charges on deposit accounts, ATM surcharge and interchange income, interchange income on debit card transactions, and servicing income on loans sold. Servicing income is primarily related to earnings on residential mortgage loans sold to the FHLB. The bank had previously sold loans to the FHLB as part of its Mortgage Partnership Finance Program. At the time of the acquisition of the bank, this loan portfolio amounted to \$35.3 million, but the bank is no longer actively selling loans through this program. Future servicing revenue from these loans will decrease as the outstanding balance of these loans continues to decline.

Other Operating Expenses

The most significant operating cost for Centric is salaries and wages and related employee benefit costs. Included in these costs for 2007 are costs related to the hiring of additional lending staff. As we had discussed at the time of the investment of our stockholders, additional lending staff was required to allow for expanded business development activities as well as servicing of the existing loan portfolio.

Other operating costs also included \$243,000 in advertising and marketing costs primarily related to the bank's re-branding campaign and efforts to increase visibility. It is anticipated that future marketing costs will decline after this initial marketing effort to promote the bank's new identity in the marketplace.

During 2007, total legal and professional fees amounted to \$276,000. This included significant legal costs related to loan collections. It is anticipated that these costs will decline in future years as the overall quality of our loan portfolio continues to improve. However, significant loan collection activity is anticipated to continue into 2008.

Centric Bank pays assessments to the OCC, our primary federal regulator, and deposit insurance premiums to the Federal Deposit Insurance Corporation (FDIC). These regulatory assessments totaled \$79,000 for the year. Current assessment rates reflect an additional charge related to the latest regulatory examination ratings. It is anticipated that these additional charges may decline as future exam results reflect an improvement in operations.

The overall results of operations for 2007 amounted to a net loss of \$195,000. Despite the net loss for 2007, we are pleased with the progress that has been made during the past year. We look forward to reaping the benefits in future years of the investments that have been made during our initial year.

REGULATORY SUPERVISION

Centric Bank is subject to the regulatory supervision of the OCC. Vartan National Bank had entered into a formal agreement with the OCC in July 2006, agreeing to address various OCC concerns. Centric Bank continues to be subject to the terms of this formal agreement. It is our understanding that the OCC is looking for continued improvement in the bank's earnings and in the level of nonperforming loans.



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Centric Financial Corporation and its subsidiary as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Centric Financial Corporation and its subsidiary as of December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
March 20, 2008



CENTRIC FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2007 (amounts in thousands, except share data)

ASSETS

Cash and due from banks	\$ 1,713
Interest-bearing deposits in other banks	103
Federal funds sold	4,871
	<hr/>
Cash and Cash Equivalents	6,687
Securities available for sale	13,884
Loans, net of allowance for loan losses of \$905	58,398
Accrued interest receivable	279
Premises and equipment, net	1,622
Restricted investment in bank stocks	709
Goodwill	493
Core deposit intangibles	91
Mortgage servicing rights and related credit enhancement fees	188
Other assets	317
	<hr/>
Total Assets	\$82,668

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Deposits:	
Non-interest bearing	\$ 9,710
Interest bearing	55,381
	<hr/>
Total Deposits	65,091
Long-term debt	6,241
Accrued interest payable	204
Other liabilities	259
	<hr/>
Total Liabilities	71,795

STOCKHOLDERS' EQUITY

Common stock, \$1.00 par value; authorized 2,000,000 shares; issued and outstanding 623,168 shares	623
Paid-in capital	10,416
Accumulated deficit	(195)
Accumulated other comprehensive income	29
	<hr/>
Total Stockholders' Equity	10,873
	<hr/>
Total Liabilities and Stockholders' Equity	\$82,668

See notes to consolidated financial statements.



CENTRIC FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2007 (amounts in thousands)

INTEREST AND DIVIDEND INCOME

Loans, including fees	\$3,695
Securities	524
Federal funds sold	614
Deposits in other banks	108
Investments in bank stocks	28
Total interest income	4,969

INTEREST EXPENSE

Deposits	2,165
Long-term debt	203
Total interest expense	2,368

Net interest income 2,601

Provision for loan losses 102

Net interest income after provision for loan losses 2,499

NONINTEREST INCOME

Service charges on deposit accounts	149
Other loan fees/servicing income	99
Other income	55
Total noninterest income	303

NONINTEREST EXPENSE

Salaries and employee benefits	1,374
Occupancy and equipment	347
Legal and professional fees	276
Data processing	262
Advertising and marketing	243
Pennsylvania bank shares tax	65
Other	525
Total noninterest expense	3,092

Loss before income tax benefit (290)

Income tax benefit 95

Net loss \$ (195)

See notes to consolidated financial statements.



CENTRIC FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY YEAR ENDED DECEMBER 31, 2007 (amounts in thousands, except share data)

	Common Stock Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total	Common Stock Shares
Balance, January 1, 2007	\$ 28	\$ 372	\$ –	\$ –	\$ 400	27,588
Issuance of common stock	595	10,044			10,639	595,580
Comprehensive income (loss):						
Net loss			(195)		(195)	
Unrealized gains on securities, net of taxes				29	29	
Total comprehensive loss					(166)	
Balance, December 31, 2007	\$623	\$10,416	\$(195)	\$29	\$10,873	623,168

See notes to consolidated financial statements.



CENTRIC FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007 (amounts in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$(195)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	102
Depreciation and amortization	121
Deferred income tax benefit	(95)
Net accretion of investment securities' discounts	(12)
Investment securities losses	1
Accretion of market value adjustments, net	(57)
Increase in accrued interest receivable and other assets	(32)
Decrease in accrued interest payable and other liabilities	(243)
Net cash used in operating activities	<u>(410)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash received in acquisition of bank	10,668
Maturities of time deposits in other banks	825
Proceeds from sales of securities available for sale	4,085
Proceeds from principal repayments of securities available for sale	3,340
Purchases of securities available for sale	(12,583)
Net increase in loans receivable	(9,060)
Net purchases of restricted investments in bank stocks	(247)
Purchases of premises and equipment	(166)
Net cash used in investing activities	<u>(3,138)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net proceeds from issuance of common stock	10,639
Net decrease in deposits	(2,804)
Proceeds from the issuance of long-term debt	2,000
Net cash provided by financing activities	<u>9,835</u>
Net increase in cash and cash equivalents	6,287
Cash and cash equivalents – beginning of year	400
Cash and cash equivalents – end of year	<u><u>\$6,687</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for:	
Interest	\$2,353

See notes to consolidated financial statements.



NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Centric Financial Corporation (“Centric”) is a bank holding company that owns Centric Bank, N.A. (“Bank”).

Centric acquired the Bank on February 8, 2007. All Bank transactions since that date are included in Centric’s consolidated financial statements.

The Bank entails virtually all of Centric’s ongoing operations. The Bank offers customers a range of deposit, loan, and other services typical of community banks through three offices in south central Pennsylvania and online banking channels.

Basis of Presentation

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

Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense, and the nature and extent of disclosures. Of course, ultimate results could differ significantly from estimates and assumptions at a fixed point in time. Centric’s material estimates that are particularly susceptible to significant change in the near term relate to the valuation of loans, the allowances for loan and other credit losses, other-than-temporary impairment evaluations of securities, and the valuation of deferred tax assets.

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 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 recorded amounts approximate fair value. The Bank is required to maintain average balances with the Federal Reserve Bank, amounting to \$302,000 at year-end.

Credit Risk Concentrations

As a community bank, most of the Bank’s loans and credit commitments comprise Pennsylvania customers, primarily individuals and entities situated in Dauphin and Cumberland counties. The bank invests in mortgage-backed securities with underlying homeowners in various locations in the United States. The Bank does not have any other significant credit concentrations.

Securities

GAAP provides that each investment in securities must be classified when purchased and re-evaluated at the balance sheet date as either, “securities available for sale,” or “securities held to maturity,” or “trading securities.” Centric classified all investments in debt securities as “available for sale” throughout 2007 because the Bank intends to hold each for an indefinite period of time, but not necessarily to maturity. 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.

Loans

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



Lease contracts that meet the criteria specified in Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, are classified as direct finance leases. Lessees guarantee 100% 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 when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility 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 collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

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

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual residential real estate, consumer, and home equity loans for impairment disclosures, unless such loans are subject to a restructuring agreement.



Purchased loans with evidence of credit quality deterioration for which it is probable at purchase that all contractually required payments will not be collected are accounted for under AICPA Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 requires impaired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for loans acquired in a transfer, including loans acquired in a purchase business combination. Under SOP 03-3, the excess of cash flows expected at purchase over the purchase price is recognized as interest income over the life of the loans. Subsequent increases in cash flows expected to be collected are recognized prospectively through an adjustment of the loan's yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

Unfunded Credit Commitments

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

Restricted Investments in Bank Stocks

Under membership agreements, the Bank is required to own stock issued by the Federal Home Loan Bank of Pittsburgh (FHLB), the Federal Reserve Bank, and Atlantic Central Bankers Bank. Because ownership and disposition is restricted, these shares lack a market for measuring fair value and are recorded at cost.

Goodwill

Goodwill represents the amount paid to acquire the Bank beyond the fair value of the identifiable net assets acquired. Goodwill is not amortized but rather is tested for impairment at least annually. For federal tax purposes, goodwill is amortized on a straight-line basis over 15 years.

Core Deposit Intangibles

Core deposit intangibles represent the asset identified for depositor relationships acquired with the Bank. This asset was valued at acquisition based upon the economic advantages of core deposits as a funding source. This acquired asset is being amortized using an accelerated method with an estimated useful life of 10 years; \$18,000 of amortization expense was recognized in 2007. Amortization expense for 2008 will be \$18,000 and will decline annually to \$10,000 in 2012.

Mortgage Servicing Rights and Related Credit Enhancement Fees

Prior to being acquired by Centric, the Bank sold residential mortgages to the FHLB under the Mortgage Partnership Finance Program (MPF). During 2007, the bank sold one loan through this program, but is no longer actively participating in the program. Under this program, the Bank services the portfolio sold to the FHLB and receives corresponding fees. MPF also entails a credit enhancement arrangement whereby the Bank receives a fee for retaining a residual contingent liability for the repayment of loans sold to the FHLB.

When Centric purchased the Bank, assets for mortgage servicing rights and related credit enhancement fees were recorded at fair value corresponding to net cash flows expected for servicing and credit enhancement of the MPF portfolio. Mortgage servicing rights were \$135,000 at December 31, 2007.

These assets are amortized based upon portfolio activity and subject to ongoing evaluation for any permanent impairment. MPF portfolio fees earned, net of amortization, amounted to \$81,000 for 2007.

The MPF portfolio balance was \$32,236,000 at year-end. The FHLB maintains a first-loss position for the MPF portfolio that totals \$74,000 at year-end. Should the FHLB exhaust its first-loss position, recourse to the Bank's credit enhancement would be up to the next \$688,000 of losses. The Bank has not experienced any losses on the MPF portfolio. The value of the credit enhancement fees receivable, net of an estimated credit enhancement liability, is \$53,000.



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, as the amount received for servicing the loan participations is a reasonable approximation of market rates and servicing costs.

Advertising Costs

The Bank charges advertising to expense as incurred.

Accumulated Other Comprehensive Income or Loss

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although 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 balance sheet, such items, along with net income (loss), are components of comprehensive income (loss). As of December 31, 2007, accumulated other comprehensive income, net of taxes of \$15,000, amounted to \$29,000. For the year ended December 31, 2007, losses on the sale of securities available for sale of \$1,000 were reclassified out of accumulated other comprehensive income into earnings.

NOTE 2 – CREATION AND CAPITALIZATION OF CENTRIC

Centric was founded in fall 2006 with the specific objective of acquiring and operating the Bank. Centric is a Pennsylvania business corporation.

Centric was capitalized with an initial \$400,000 at the time of incorporation by issuance of 27,588 shares of common stock at \$14.50. All proceeds were placed at risk as a nonrefundable down payment for the purchase of the Bank.

In order to consummate the purchase of the Bank and infuse additional capital, Centric proceeded with a private placement and accepted subscriptions from investors for 595,580 shares of common stock at an offering price of \$18.00. Corresponding shares were issued yielding proceeds of \$10,639,000, net of the costs of issuance of \$81,000, when the offering was completed February 8, 2007.

Founding shareholders received warrants that collectively permit 10,000 common shares to be purchased for \$16.25 per share, exercisable from the 2007 anniversary of Centric's incorporation through 2016. Any shares issued pursuant to these warrants must be held for a minimum of two years. All of these warrants remain exercisable at year-end.



CENTRIC FINANCIAL CORPORATION

NOTE 3 – PURCHASE OF THE BANK

Centric acquired Vartan Financial Corporation and its wholly-owned subsidiary, the Bank, on February 8, 2007, for \$8,700,000 cash. Related transaction costs were \$95,000. Vartan Financial Corporation was dissolved at the time of the acquisition and subsequent to the acquisition, the Bank's name was changed from Vartan National Bank to Centric Bank.

In accordance with SFAS No. 141, *Business Combinations*, Centric used the purchase method of accounting to record this transaction.

Upon the acquisition of Vartan Financial Corporation and the Bank on February 8, 2007, the condensed balance sheet was as follows:

ASSETS

Cash and cash equivalents	\$21,707
Time deposits in other banks	825
Securities available for sale	8,672
Loans, net of allowance for loan losses of \$762	49,365
Premises and equipment	1,559
Restricted investments in bank stocks	462
Goodwill	493
Other intangible assets	321
Other assets	158
Total Assets	\$83,835

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Deposits	\$67,865
Long-term debt	4,225
Other liabilities	706
Total Liabilities	72,796

Stockholders' Equity	11,039
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Total Liabilities and Stockholders' Equity	\$83,835
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NOTE 4 – SECURITIES AVAILABLE FOR SALE

The balance sheet presents "available for sale" securities at fair value based upon quoted market prices. Corresponding unrealized gains and losses do not affect net income but are recorded in accumulated other comprehensive income, net of related deferred income taxes.

A summary of securities available for sale as of December 31, 2007, is as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency security	\$ 496	\$ –	\$ –	\$ 496
Mortgage-backed securities	13,345	77	(34)	13,388
	\$13,841	\$77	\$(34)	\$13,884

Centric has the ability and intent to hold "available for sale" securities with an unrealized loss due to changes in interest rates and other market factors for a time necessary to recover the amortized cost of the investment. Although Centric had no other-than-temporary impairments for 2007, our accounting policy would recognize any such impairment below amortized cost as a realized loss.



CENTRIC FINANCIAL CORPORATION

Eight mortgage-backed securities with a fair value of \$7,216,000 had an unrealized loss of \$34,000 at December 31, 2007, as shown above. These securities have been in a continuous unrealized loss position for less than three months at December 31, 2007, and are considered temporarily impaired. Centric's U.S. Government agency security matures during 2008.

Securities totaling \$7,371,000 are pledged to collateralize Bank deposits by Pennsylvania local governments.

NOTE 5 – LOANS

The composition of loans, net of unamortized loan origination fees, is (in thousands):

Loans secured by real estate:	
Commercial	\$27,415
Residential	11,996
Commercial and industrial loans	16,144
Finance leases	1,593
Consumer loans	2,139
Overdrafts	16
Total Loans	59,303
Allowance for loan losses	(905)
Net Loans	\$58,398

The carrying value of the Bank's nonperforming loans is (in thousands):

Nonaccrual loans	\$ 1,918
Accruing loans – 90 days or more past due	37
Total nonperforming loans	\$ 1,955

Financial Accounting Standard 114 requires disclosures concerning "impaired loans" (in thousands):

Loans with a related allowance for loan losses	\$ 600
Loans at fair value at acquisition of bank	642
Loans without a related allowance for loan losses	2,466
Total outstanding balance at year end	\$ 3,708
Related allowance for loan losses	\$ 185
Average outstanding balance of impaired loans for the year	4,475
Interest income recognized on impaired loans	406

For any impaired loan that the Bank expects to collect less than the contractual balance, the loan was recorded at fair value at acquisition or a corresponding provision to the allowance for loan losses was recorded.

Some loans acquired with the Bank required purchase accounting valuation as provided by AICPA Statement of Position 03-3. Loans that evidenced credit quality deterioration and probability that not all contractually required payments would be collected had an outstanding contractual balance of \$1,131,000 at the time of acquisition and were recorded at a fair value of \$744,000. During the balance of 2007, \$64,000 of this difference was accreted into interest income due to successful recovery on two loans deemed valueless at the time of the acquisition. As of December 31, 2007, these acquired impaired loans had an outstanding contractual balance of \$911,000 and a carrying amount of \$642,000.



CENTRIC FINANCIAL CORPORATION

NOTE 6 – ALLOWANCE FOR LOAN LOSSES

Allowance for loan loss activity for 2007 is (in thousands):

Balance, January 1, 2007	\$ -
Allowance related to loans acquired with Bank on February 8, 2007	762
Provision for loan losses	102
Charged-off loans	(10)
Recoveries of charged-off loans	51
Balance, December 31, 2007	<u>\$905</u>

The Bank has experienced no charge-offs of any loan originated since the acquisition of the Bank.

NOTE 7 – PREMISES AND EQUIPMENT

Virtually all premises and equipment owned by Centric were acquired with the Bank. These acquired assets were recorded at fair value pursuant to purchase accounting and depreciation began accumulating anew. Ongoing additions to premises and equipment are recorded at cost. Occupancy and equipment expense includes \$103,000 of depreciation expense calculated on the straight-line method over estimated economic lives: buildings and improvements, 15 to 40 years; furniture, fixtures, and equipment, 3 to 10 years.

Premises and equipment at year-end comprises (in thousands):

Land	\$ 554
Buildings and improvements	581
Furniture, fixtures, and equipment	590
	<u>1,725</u>
Accumulated depreciation	(103)
Premises and Equipment, net	<u>\$1,622</u>

Lease expense amounted to \$109,000 for 2007. In March 2008, the Bank leased property for construction and renovation of a new location during 2008. Minimum lease payments total \$160,000 in 2008, \$129,000 in 2009, and \$134,000 per year for 2010 to 2012.

NOTE 8 – DEPOSITS

Centric's deposits at year-end comprised (in thousands):

Demand, non-interest bearing	\$ 9,710
Demand, interest bearing	8,328
Savings	871
Money market	22,368
Time deposits	23,814
	<u>\$65,091</u>

Scheduled maturities of time deposits are (in thousands):

2008	\$20,486
2009	963
2010	639
2011	913
2012	813
	<u>\$23,814</u>

Time deposits in denominations of \$100,000 or greater total \$8,997,000 at year-end.



NOTE 9 – BORROWINGS

As one avenue for funding growth, the Bank is approved by the Federal Home Loan Bank (FHLB) for borrowings of up to \$27,745,000. At year-end, \$6,250,000 was outstanding.

FHLB-issued letters of credit of \$4,054,000 collateralize Bank deposits by Pennsylvania local governments.

Additional borrowing capacity for FHLB borrowings was \$17,441,000 at year-end.

FHLB borrowings are secured by a general pledge of the Bank's assets.

Scheduled maturities of outstanding FHLB borrowings are \$4,250,000 in 2008 (5.28%) and \$2,000,000 in 2011 (3.76%). These borrowings appear on the balance sheet as long-term debt of \$6,241,000 due to fair value purchase accounting.

NOTE 10 – EMPLOYEE BENEFITS

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may make contributions to the Plan, subject to certain limitations based on federal tax laws. The Bank makes matching contributions of twenty-five percent of employees' contributions, subject to a maximum contribution of one percent of an employee's compensation. Matching contributions vest to the employee after three years. For the year ended December 31, 2007, expense attributable to the Plan amounted to \$11,000 and is included in salaries and employee benefits.

NOTE 11 – INCOME TAXES

On a consolidated basis, no federal income taxes were paid, payable, or refundable for 2007. A deferred federal income tax benefit of \$95,000 is included in net income principally to account for the expected future use of net operating loss carryforwards ("NOL") of \$279,000. This benefit is recognized at 1% less than the 34% statutory rate to reflect minor permanent differences between income measured for GAAP and tax purposes.

Centric records deferred tax assets and liabilities for the future tax consequences of temporary differences between financial statement recognition of events and corresponding tax return positions. Other than the NOL, these temporary differences amount to a deferred tax liability of \$22,000. This component together with the NOL provides a net deferred federal income tax asset of \$80,000 included in other assets at year-end.

The Bank is exempt from Pennsylvania income taxes and Centric's unconsolidated liability is immaterial.

NOTE 12 – RELATED PARTY TRANSACTIONS

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

In accordance with federal law, 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 year-end, loans to related parties were \$5,426,000 and deposits by related parties totaled \$3,099,000.

Related party loan activity during 2007 is summarized as follows (in thousands):

Balance, January 1, 2007	\$ -
Loans acquired with Bank on February 8, 2007	623
Additions	6,288
Reductions	(1,485)
Balance, December 31, 2007	<u>\$5,426</u>



CENTRIC FINANCIAL CORPORATION

All of Centric's Directors are customers of the Bank. Centric shareholders number approximately 125 and many are Bank customers situated in the south central Pennsylvania community. Conversely, the Bank is a customer of some shareholder-related entities in the ordinary course of business. The Bank has a joint venture agreement with an insurance agency affiliated with a director that began in 2001. During 2007, related party transactions include \$62,000 of purchases and \$12,000 in revenue.

The Bank has also entered into employment agreements with two executive officers. The agreements include minimum annual salary commitments. Upon termination, these individuals may receive monetary compensation as set forth in the agreements.

NOTE 13 – UNFUNDED CREDIT COMMITMENTS

The Bank 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. 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 credit commitments at year-end (in thousands):

Commitment to grant loans	\$ 3,380
Unfunded commitments under lines of credit	12,556
Standby letters of credit	776
	<u>\$16,712</u>

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

The amount of collateral obtained, if deemed necessary by the Bank 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 satisfactory collateral.

Outstanding letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Most of these standby letters of credit expire within 12 months. The credit risk involved in issuing letters of credit is essentially the same as in extending comparable loans to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. At year end, the amount of the liability for guarantees under standby letters of credit is not material.

The Bank did not incur any losses in 2007 associated with financial instruments with off-balance sheet risk.



NOTE 14 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The Bank must meet the minimum capital requirements or face mandatory and discretionary actions by regulators that could have a direct material effect on Centric and its financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the 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 regulatory accounting practices. 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 regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets.

The Bank's primary federal regulator is the Office of the Comptroller of the Currency (OCC). In the year prior to being acquired by Centric, the Bank entered into a formal agreement with the OCC (OCC Agreement) that included commitments to improve the Bank's capital, asset quality, management, earnings, and liquidity. Management has proceeded with improvements to comply with the OCC Agreement. Should the OCC at any time deem that the Bank is not adequately addressing regulatory concerns there could be further restrictions imposed on the Bank's activities.

Pursuant to the OCC Agreement, the Bank maintains capital levels and ratios that exceed those typically required of banks. The Bank's actual and required capital amounts and ratios at year end are (dollars in thousands):

	Actual		As Required by the Formal Agreement with the OCC	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$10,943	17.89%	\$≥7,952	≥13.0%
Tier 1 capital (to risk-weighted assets)	10,176	16.64	≥7,340	≥12.0
Tier 1 capital (to total assets)	10,176	12.20	≥7,509	≥9.0

The Bank does not intend to declare dividends for the foreseeable future. In any case, dividends are generally restricted by federal banking laws based upon a regulatorily-defined profit measure and specifically constrained by the OCC Agreement.

The OCC Agreement provides that the Bank obtains OCC approval for acceptance of brokered deposits.

In contrast to the Bank it owns, Centric is exempt from federal banking regulatory requirements because it is a small Bank Holding Company as defined by the Federal Reserve Board.



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