Centric Financial Corporation

ANNUAL REPORT 2011

One neighbor

one account

one loan

one line of credit

one investment

and

one deposit

at a time.

Table of Contents

To Our Shareholders,
CUSTOMERS, AND FRIENDS:

2011 has been a year of celebration and milestones for Centric Bank. We continue to be the countertrend in a challenging economy by providing credit and cash to growing businesses, capitalizing new ventures, financing the construction of new buildings, offering loans to individuals to improve and expand their homes, and funding college tuition for their children—the next leaders of our communities.

We have helped customers achieve the American dream of purchasing their own homes. Our deposit products provided financial safety and security to individuals, families, and businesses in our community. As banks in our market continue to merge and community focus is lost, Centric continues to revolve around one customer and one relationship at a time. We have stayed the course and remain true to our vision and strategic plan.

Achievements that we're proud of include:

- Organic loan growth exceeded 21%, leading central Pennsylvania for the fourth consecutive year. We rank in the top five for organic loan growth in the Commonwealth;
- For the second year in a row, Centric Bank was awarded a "Best Places to Work in PA";
- More than 70% of our loans are to small- and medium-sized businesses and 100% are local;
- The bank's third location at 1625 Market Street in Camp Hill opened on March 8 and finished the year with over $34 million in deposits;
- Assets have topped $253 million for the year, up 26% from the 2010 year-end of $200 million;
- 2011 was our second year of profitability; we finished with net income after taxes of $1.4 million, a 65% increase over the prior year's earnings;
- We delivered a solid Return on Equity of 12.12% and a .64% Return on Assets to our shareholders; our ROE ranks in the top 5% of financial institutions in central Pennsylvania;
- At 69%, our efficiency ratio continues to improve as we grow into our infrastructure;
- Total loan originations topped $67 million, ending the year with approximately $179.5 million in outstanding loans net of allowance, an overall increase of 21%;
- Deposits increased by $49.1 million or 28%;
- Our bank was named as a Top 50 Fastest Growing Company in central Pennsylvania.

During 2011, we added several new positions to our retail, lending, and operations teams and are expanding our physical footprint into key locations. In May 2011, we acquired the property at 1201 W. Governor Road in Derry Township, adjacent to the Hershey Medical Center, and plan to introduce our Chemistry of Banking to the Hershey area in early 2013.

Our true measure of success is in the personal contacts we develop with you—the people in the neighborhoods where we work, live, and serve. Please say Hello when you see us in your neighborhood or at one of these events:

- Plein Air Camp Hill on Canvas
- Keystone Human Services
- Whitaker Center for Science and the Arts
- Camp Hill, Lemoyne, and Linglestown Baseball
- The Lion Foundation
- The Arc of Dauphin and Lebanon Counties
- Leukemia and Lymphoma Society Summer Solstice and Light the Night Walk
- American Heart Association
- Harrisburg Regional and West Shore chambers of commerce
- Dress for Success
- Junior Achievement
- Bishop McDevitt, Central Dauphin, Susquehanna Township, and Camp Hill school activities
- Big Brothers Big Sisters of the Capital Region
- Colonial Park Rotary
- Camp Hill Lunch Box Review
- Pennsylvania Bankers Association Board of Directors (Second Vice Chair)
- American Bankers Association Community Bank Council

Charting an ambitious future, we lead aware that our bank's destiny has more to do with our mindsets, strategies, and skill sets than the global economy. While the prognosticators say, "When the economy rebounds, we'll consider a growth plan," we remind our team that WE are the economy.

Thank you for your trust, investment, and continued partnership with Centric Bank.
In all of our efforts, *We Revolve Around You*.

Very Truly Yours,

Donald E. Enders, Jr.

Donald E. Enders, Jr.
CHAIRMAN OF THE BOARD

Patricia A. Husic

Patricia A. Husic
PRESIDENT & CEO

DNA Beneath the Data:
A Narrative for Shareholders

Carbon, Confidence, and Community

2011 was a milestone for Centric Bank: expansively, financially, and philosophically.

It was a year of organic growth, and thanks to our amazing customers, we are celebrating five years of reimagined banking. "We help hard-working people make sound financial decisions. We move business forward. Although banking regulations have changed dramatically—and sometimes weekly—the need for safe and sound banking services has not changed," says President & CEO Patricia A. Husic.

In the financial industry, we realize that many banks offer similar products, loans, and savings vehicles; but no financial institution can replicate Centric Bank's Chemistry of Banking. And to borrow from chemistry, that all begins with carbon.

As you may recall, we came to banking in 2007 with a relational mindset—before the economic disintegration and housing market collapse. Our Chemistry of Banking philosophy **places deep value on the people** who save, borrow, build, invest, and create jobs in our community.

To our customers, shareholders, and neighbors: You are the real assets of our bank and the engine of our local economy. "When I hear prognosticators say, 'Wait until the economy rebounds,' I want to remind them that WE are the economy. If we don't provide cash and capital for business growth, and lead through recovery, then the down cycle continues," says Husic.

Our Story

What the downturn has done for community banks is force a return to relationship banking—a core value we never abandoned. In fact, that's our raison d'être and the catalyst for our organic growth.

In chemistry, the word *organic* is defined by carbon, the foundation of all life. The definition of organic growth? One neighbor, one account, one loan, one line of credit, one investment, and one deposit at a time. Although much more time-consuming to nurture and sustain, long-term organic growth in banking remains a rare accomplishment.

Our competitive advantage is personalized service. Beginning with the first smile greeting customers in our financial centers or the cheerful voice on the phone, service begins with our employees. And it's because of their chemistry that we've been awarded Pennsylvania's Top 50 Fastest Growing Companies in 2011 and a PA Best Places to Work two years in a row.

While other community banks have found it beneficial to merge with megabanks, we've purposely remained independent. Led by local decision makers, we make sure our clients have the capital they need to grow businesses, buy equipment and software, own a first home, cover payroll, start a medical practice, build an addition, or invest in college. These men and women are not "accounts," they are the stories of our success.

When you need a loan, Centric Bank listens to your story first, considers the risk environment, and then works diligently to make your goals a reality.

We believe Centric Bank has its own carbon story. We meet, lend to, and support the people who form the fabric and unique tapestry of central Pennsylvania. From day one, our strategic goals were to lead in organic growth and to position Centric Bank as a business-friendly partner. **More than 70% of our loans are to small- and medium-sized businesses and 100% are local.**

Alive and growing through new financial centers in new towns, Centric Bank is charting an ambitious future with entirely new lines of business opening, such as Doctor Centric Bank, new channels to reach our customers, and always a promise of one degree of separation from bank customer to decision maker. In every service delivery, *We Revolve Around You*.

Organic Expansion

To better serve a robust client base, Centric Bank is growing by bricks and mortar in central Pennsylvania neighborhoods. We opened our third location at 1625 Market Street in Camp Hill on March 8 and ended the year with $34 million in deposits. After four months, we reached the break-even mark and have sustained profitability on a month-to-month basis.

In May 2011, we purchased property for our fourth location at 1201 West Governor Road, in Hummelstown. Derry Township, like Camp Hill Borough, has a rich history of neighborhood pride and excellence. We strive to be good neighbors.

Throughout our banking relationship, I have been consistently impressed with the attentiveness of our lending officer and the Centric Bank staff. Bob McDonald, our loan officer, was acutely aware of the personal needs of our school and understood our vision for impacting our surrounding community. As a result, the bank shaped their services around our needs instead of requiring us to conform to their service offerings.

Our relationship with Centric Bank includes loan and deposit accounts and payroll. We have found their services to be user-friendly, tailored to our needs, and innovative. We are extremely pleased with our experience at Centric Bank and look forward to continuing our relationship.

Pastor Bob Steele

FULL GOSPEL CHURCH OF GOD

I recently decided to start my own dental practice. After creating a comprehensive business plan and finding a great location, the next step was to secure financing. At the time, I was inundated with mailers and flyers from a number of banks offering me practice start-up financing. After long and monotonous negotiations, I was unable to reach common ground with the big banks that did not compromise my patients' care or my ideals. Thankfully, I met the team at Centric Bank. They understood my vision and did not try to dictate to me—through underwriters—how modern dentistry is done. They were helpful and goal-oriented.

If you are considering buying an existing practice, building a practice, or simply modernizing, take the time to talk to my friends at Centric Bank. Centric Bank is filled with good people doing good things. I'm thankful for their support in building Paxton Family Dental.

Steven H. Deets, DMD
PAXTON FAMILY DENTAL

Organic Loan and Asset Growth

Centric Bank leads central Pennsylvania for the fourth consecutive year in organic loan growth. With 21.5% loan growth, we have consistently ranked in the top five banks in the Commonwealth for growth. We continue to challenge ourselves with our performance goals.

Assets have risen to $253 million, up 26% from the previous year. And 2011 was our second year of profitability with a 65% increase over the prior year's earnings.

Loan originations—the economic pipeline that we continue to fuel—have reached $67 million for the year, ending with an overall increase of 21%.

To dentists, engineers, printers, hoteliers, landscapers, and doctors, we are your Financial First Responders, thanks to our shareholders and depositors.

Deposits are one of the strongest symbols of our customers' confidence in us, and they have increased to $49.1 million, or by 28%.

These numbers indicate a positive trend, but more importantly, our customers' responses to our business model. It's clear that they support and embrace our chemistry of relationships, banking values, and community vision.

Maximizing resources in the classroom is a difficult endeavor in challenging economic times. For Camp Hill School District, recent financial trends warranted close evaluation of banking and investment relationships. The district sought out a progressive financial institution with efficient systems supported by friendly, yet professional, customer service.

We are very pleased with our choice to partner with Centric Bank. They have been proactive in meeting our business needs, and their generosity has extended in support of our students and the community in general. Camp Hill School District's vision of "Educational Excellence, Community Strength, and Student Success" is complemented by Centric Bank's *We Revolve Around You* focus.

Christine B. Hakes, PRSBA, MS Ed

CAMP HILL SCHOOL DISTRICT

DIRECTOR OF BUSINESS ADMINISTRATION

SCHOOL BOARD SECRETARY

Organic Philosophy

For the customer who wants a real voice on the end of the phone instead of voice mail, a loan explanation in person, and the reassurance that "we will get this done," they will be heartened by the Centric Bank philosophy. Business relationships with lenders you trust is rarely achieved through emails or mobile apps. **What makes us different? We offer handshakes and honest answers.**

Perhaps the best metric of our organic philosophy is our community involvement. From our Plein Air sponsorship in Camp Hill Borough—a first-of-its-kind artist in residence initiative—to our Lion Foundation sponsorship and support of community organizations like The Whitaker Center for Science and the Arts and The ARC of Dauphin and Lebanon Counties, we continue to emphasize in-person connections. More than 70% of our employees and 85% of Centric Bank's board of directors have participated in the American Heart Association's Heart Walk, and we have raised over $5,000 for the Leukemia and Lymphoma Society.

Our message of hometown loyalty and national lending muscle is communicated in top-down channels from CEO Patti Husic in her opinion editorials and letters to shareholders, as well as in the Centric Bank newsletter, direct mail campaigns, and news releases. The management team places extraordinary value on clear communication to the shareholders, to the neighborhoods the bank serves, and to the media.

Striving to achieve the highest and best use of the bank's resources and the employees' talents remains a guiding principle. Leading by example is Patti Husic. Recognized by *American Banker* as one of The 25 Women to Watch in Banking and Finance, Patti Husic was selected from hundreds of executive applicants in a nationwide ranking. Her leadership role in Centric Bank's founding, branding, strong loan growth, community leadership, and innovative expansion strategies caught the attention of the selection committee.

The ultimate measure of a bank's success is its profitability. In five short years, we have achieved profitability, but we also measure how "profitable" we are in families served, business questions answered, first homes purchased, and ideas transformed into actions. We count our investments in our communities as an ROI that the algorithms can't measure. And our success has a carbon footprint we're very proud of!

Centric Bank has been instrumental to the growth and business development of Joy Daniels Real Estate Group Ltd. over the past two years. Their commercial expertise was critical to our success, and our staff's communication with the Centric Bank team has been one of ease and availability. Interactions with Centric Bank, both with employees and the technology provided by the bank, have been far superior to others we have experienced. We would recommend Centric Bank to any small business that values convenience.

Joy Daniels

JOY DANIELS REAL ESTATE GROUP LTD.

After completing my postdoctoral training, I decided to take the steps necessary to open my own practice, named East York Psychological Associates (EYPA).

With a business plan in hand, I approached two banks and was denied for a small business loan despite having a solid business and financial plan. At the time, I was eight months pregnant and embarking on maternity leave with the intent of beginning the process of opening my business while on leave.

After meeting with loan officers, I was informed that my application was denied because of concerns regarding my maternity leave. I believed that such judgments were not only inappropriate, but also discriminatory as men seeking business loans with expecting partners are not held to the same criteria. As a women's advocate with experience working for the Women's Commission at Millersville University, such policies were disheartening and angering.

After asking acquaintances about loan options, I discovered Centric Bank as a possible solution since it is sensitive to all issues surrounding entrepreneurship, small business, and executive women. Not only did Centric Bank offer me a loan, but they also offered a credit line to provide stability during the first year of business. Centric's loan officer and other staff members were professional, genuine, and helpful during EYPA's initial development, making the process of starting a business less intimidating and cumbersome.

In the first two months of business, EYPA is thriving and plans to branch to other locations in the future. Centric Bank is an ally and trusted business partner and has become the financial backbone of my practice. And for that, I am sincerely grateful.

Dr. Sabra Abboud, Licensed Psychologist

EAST YORK PSYCHOLOGICAL ASSOCIATES

Thank you, Centric Bank, for the honest business relationship that you have provided RentalZone of PA. Over 18 months ago, I sat down with Robert McDonald and told him that I wanted to buy a business. He was extremely attentive to my proposal and helped me navigate the government maze of requirements. Centric Bank really understood my needs and supported me through the whole process. They told me the truth, and I did not have any surprises. I also appreciate the ability to pick up the phone and reach a real person who is knowledgeable and able to answer my questions in a timely manner.

Centric was able to help us streamline our banking process with online banking, check scanning, corporate credit cards, and is a great partner for credit card processing, saving us money and time.

Past dealings with other banks had soured me toward banks in general, but the people at Centric Bank renewed my faith that a local bank with the right people is the right choice. Thank you!

John Greenwood

RENTALZONE OF PA

OWNER

Our

Chemistry of Banking

philosophy places

deep value

on the people who

SAVE,

BORROW,

BUILD,

INVEST,

and **CREATE JOBS**

in our community.

Management's Discussion
and Analysis

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 also impact our future operations. Our analysis of these risks may also be incorrect and our strategies to address them may be ineffective.

Bank Performance

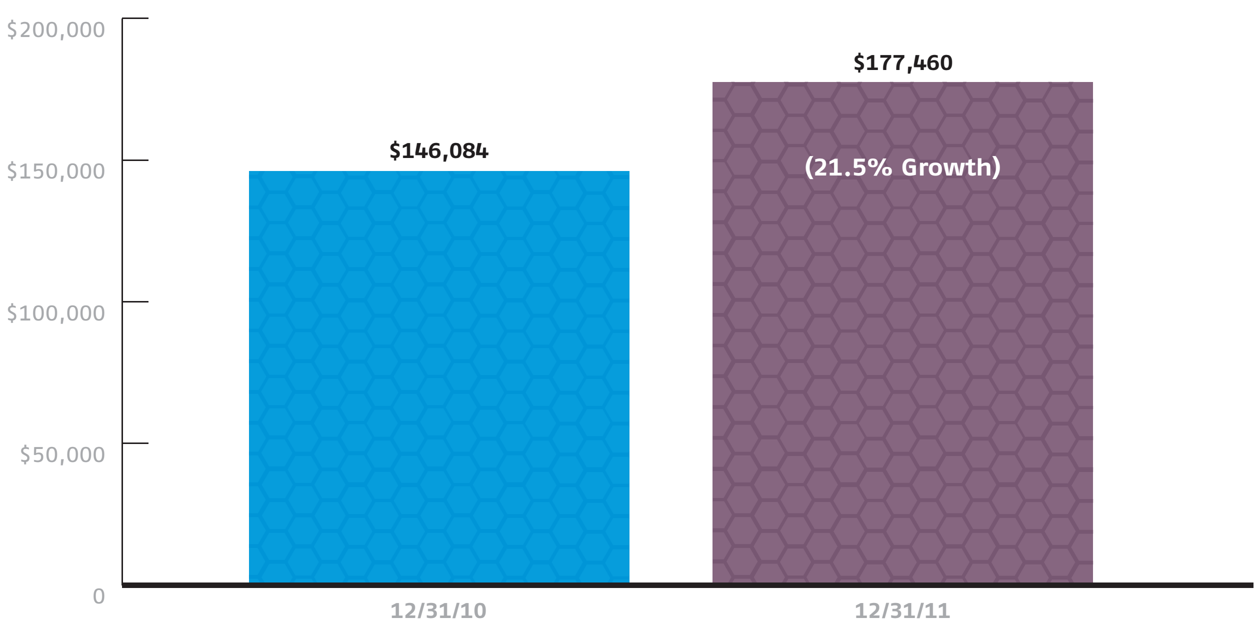
Centric's performance for 2011 delivers another year of double-digit growth and reaching key milestones. 2011 is our fourth consecutive year of outstanding achievements. Centric was recognized as number 23 of Central Pennsylvania's "Top 50 Fastest Growing Companies in 2011." We also expanded to a new market in Camp Hill, opening our third financial center, which has been a true success story.

Our chemistry of banking has provided Centric the ability to cultivate and build strong relationships which are the foundation for our success. Those relationships are not just customer based; they include our employees and our communities as well. For the second year in a row, Centric was listed as one of Pennsylvania's "Best Places to Work" for small- to medium-sized companies.

Financial Position

Loans
Centric Bank's primary earning asset is loans. As depicted in the following graph, loan growth was 21.5 percent during 2011.

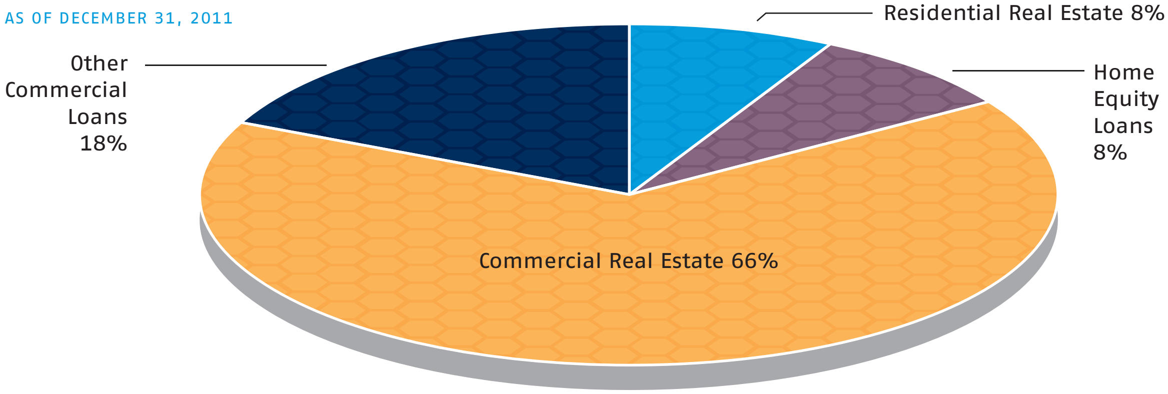
CENTRIC FINANCIAL CORPORATION TOTAL LOANS
(IN THOUSANDS)



Our primary area of strategic focus is in 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, 2011

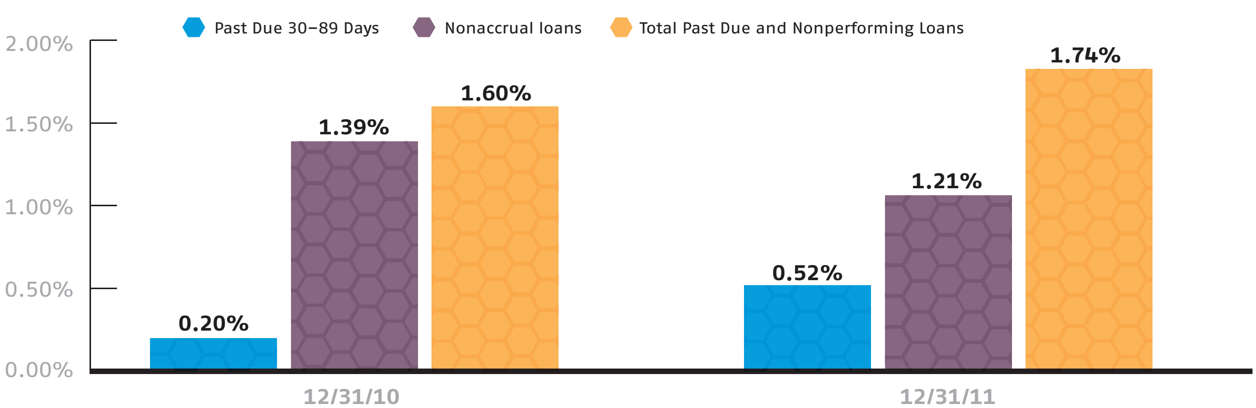


This focus on commercial lending has been coupled with prudent loan underwriting standards and enhanced relationship monitoring. This helps to ensure that loans being recorded are solid and that proactive efforts can be taken to address any potential credit deterioration identified in the loan portfolio.

Credit Quality

Prudent underwriting and related controls along with continual monitoring will ensure the long-term maintenance of overall loan portfolio credit quality. Centric continues to manage past due and nonperforming loans as a percent of total loans, which is reflected in the following graph:

NONPERFORMING ASSETS 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.

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.

During 2011, the bank had net charge-offs of $428,000.

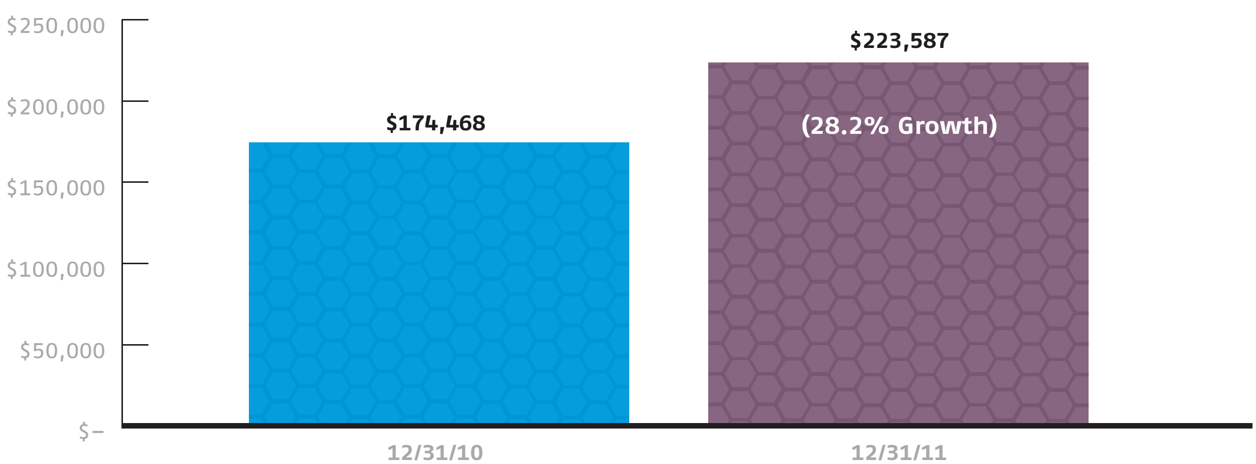
Investment Securities

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, maturities, and sales 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 investment and provide an offset to a liability sensitive risk position. The bank's investment securities consist of U.S. agency, mortgage-backed, and municipal securities. The securities have a relatively short average life. Investments are thoroughly analyzed prior to purchase and the portfolio is subject to ongoing monitoring. The bank recognized a $62,000 other-than-temporary-impairment of the investment security portfolio in 2011.

Deposits

The most critical source of funding for the bank is its deposit base. We have pursued core deposit growth including acquiring deposit accounts with new loan relationships and looked to our local market to expand the deposit base. We have been successful in fully funding our loan growth with growth in deposits. The bank consistently monitors its deposit pricing and that of its competitors. The following graph depicts the growth in total deposits.

CENTRIC FINANCIAL CORPORATION DEPOSIT GROWTH



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.

Stockholders' Equity

Our stockholder equity continues to be in excess of minimum total capital levels required by regulatory authorities. Please see Note 12 to the Consolidated Financial Statements for additional details.

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 year ended December 31, 2011:

Centric Financial Corporation

Distribution of Assets, Liabilities, and Stockholders' Equity
Interest Rates and Interest Differential

(in thousands)	Year Ended December 31, 2011		
	Average Balance	Interest	Rate
ASSETS:			
Deposits in other banks	$ 7,127	$ 43	0.60%
Federal funds sold	14,048	45	0.32%
Investment securities (1)	21,242	663	3.12%
Loans (2)	165,828	9,519	5.74%
Restricted invest. – bank stocks	558	–	0.00%
Total earning assets	208,803	10,270	4.92%
Allowance for loan losses	(2,260)		
Other nonearning assets	15,027		
TOTAL ASSETS	$221,570		
LIABILITIES and STOCKHOLDERS' EQUITY:			
Deposits:			
Interest-bearing demand	$ 79,893	$ 971	1.22%
Savings	21,396	243	1.14%
Time	78,406	1,660	2.12%
Total deposits	179,695	2,874	1.60%
Short-term borrowing	–	–	0.00%
Long-term debt	6,796	246	3.62%
Total interest-bearing liabilities	186,491	3,120	1.67%
Demand deposits	14,614		
Other liabilities	550		
TOTAL LIABILITIES	201,655		
Stockholders' equity	19,915		
TOTAL LIABILITIES and STOCKHOLDERS' EQUITY	$221,570		
Net interest income/interest rate spread		$7,150	3.25%
Net interest margin			3.42%

NOTES:

(1) Balances reflect amortized historical cost for available-for-sale securities. The related average unrealized gain or loss on securities is included in other nonearning assets.

(2) Balances of nonaccrual loans and related income recognized have been included for computational purposes. Includes net loan fee income of $33,000.

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 and current measurement indicates exposure to rising interest rates. The Federal Reserve made no changes to short-term interest rates in 2011. The lack of action has continued the decline in overall market interest rates. The extended period of low rates has impacted the yield on Centric's earning assets. Largely offsetting this impact have been reductions 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 $1,098,000 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, interchange income on debit card transactions, servicing income on loans sold, fee income on mortgages sold on the secondary market, and bank-owned life insurance. 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. The bank is no longer actively selling loans through this program. Future servicing revenue from these loans will decrease as the outstanding balances of these loans continue 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 2011 are costs related to the hiring of the staff for our Camp Hill office, and additional lending and support staff. Additional lending staff was to allow Centric to expand its presence in our communities.

Other operating costs also included $264,000 in advertising and marketing costs primarily related to the opening of our Camp Hill office and continuing the bank's presence in our local market.

During 2011, total legal and professional fees amounted to $312,000. 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.

The overall results of operations for 2011 amounted to net income of $1,405,000. We are pleased to present our second year of profitability which is a 65 percent increase over 2010 and look forward to continued benefits from our efforts in the future. Please see the Consolidated Statements of Operations and related notes for further details.

Regulatory Supervision

Centric Bank is subject to the regulatory supervision of the FDIC and the Pennsylvania Department of Banking.

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 (the "Company") and subsidiary as of December 31, 2011 and 2010, and the related Consolidated Statements of Operations, Changes in Stockholders' Equity, and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, A.C.

S.R. Snodgrass, A.C.
Wexford, Pennsylvania
February 29, 2012

Centric Financial Corporation

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	December 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 4,589	$ 2,815
Interest-bearing deposits in other banks	1,834	1,454
Federal funds sold	25,913	9,741
Cash and cash equivalents	32,336	14,010
Investment certificates of deposits	5,394	8,825
Securities available for sale	25,023	22,422
Securities held to maturity, fair value $896 and $1,198	931	1,052
Loans	179,942	147,896
Less: allowance for loan losses	(2,482)	(1,812)
Net loans	177,460	146,084
Loans held for sale	395	270
Accrued interest receivable	570	475
Premises and equipment, net	6,151	4,210
Regulatory stock	807	506
Cash surrender value life insurance	1,337	–
Goodwill	492	492
Other intangible assets	31	43
Other assets	2,672	2,116
TOTAL ASSETS	**$253,599**	**$200,505**
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 15,830	$ 13,128
Interest bearing	207,757	161,340
Total deposits	223,587	174,468
Long-term debt	9,442	8,630
Accrued interest payable	126	153
Other liabilities	498	333
Total Liabilities	**233,653**	**183,584**
STOCKHOLDERS' EQUITY		
Preferred stock series A, $1.00 par; 1,000,000 shares authorized; 6,056 shares issued and outstanding in 2010 (liquidation preference $1,000 per share)	–	5,912
Preferred stock warrant series B, $1.00 par; 182 shares issued and outstanding in 2010 (liquidation preference $1,000 per share)	–	182
Preferred stock series C, $1.00 par; 7,492 shares issued and outstanding in 2011 (liquidation preference $1,000 per share)	7,492	–
Common Stock, $1.00 par; 12,000,000 shares authorized; 2,687,919 and 2,640,233 shares issued and outstanding in 2011 and 2010, respectively	2,688	2,640
Additional paid-in capital	13,274	12,975
Retained deficit	(3,518)	(4,572)
Accumulated other comprehensive income (loss)	10	(216)
Total Stockholders' Equity	**19,946**	**16,921**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$253,599**	**$200,505**

See notes to consolidated financial statements.

Centric Financial Corporation

Consolidated Statement of Operations

(in thousands, except share data)	Year Ended December 31, 2011	2010
INTEREST INCOME		
Interest and fees on loans	$ 9,518	$ 7,715
Interest and dividends on securities	664	801
Interest-bearing deposits in other banks	43	106
Federal funds sold	45	25
Total interest income	10,270	8,647
INTEREST EXPENSE		
Interest on deposits	2,874	2,915
Interest on long-term debt	246	331
Total interest expense	3,120	3,246
Net Interest Income	7,150	5,401
Provision for loan losses	1,098	684
Net interest income after provision for loan losses	6,052	4,717
NONINTEREST INCOME		
Service charges on deposit accounts	88	98
Other loan fees/servicing income	134	115
Net gain on sale of loans	90	25
Total other-than-temporary impairment ("OTTI") losses	(116)	-
Non-credit portion of OTTI recognized in other comprehensive income	54	-
Net OTTI losses recognized in earnings	(62)	-
Other income	228	112
Total noninterest income	478	350
NONINTEREST EXPENSE		
Salaries and employee benefits	2,588	1,967
Occupancy and equipment	818	700
Legal and professional fees	312	161
Data processing	401	389
Advertising and marketing	264	178
Shares and capital stock tax	132	110
Directors expense	108	94
Federal deposit insurance	239	296
Other expenses	709	568
Total noninterest expense	5,571	4,463
Income before income tax benefit	959	604
Income tax benefit	(446)	(247)
Net income	**1,405**	**851**
Preferred stock dividends and discount accretion	(351)	(356)
Net income available to common shareholders	**$ 1,054**	**$ 495**
PER SHARE DATA		
Basic earnings per share	$0.40	$0.22
Diluted earnings per share	$0.39	$0.22
Average shares outstanding (basic)	2,658,251	2,282,592
Average shares outstanding (diluted)	2,674,975	2,289,111

See notes to consolidated financial statements.

Centric Financial Corporation

Consolidated Statement of Changes in Stockholders' Equity

(in thousands, except share data)	Preferred Stock Series A	Preferred Stock Series B	Preferred Stock Series C	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2009	$5,875	$182	$ –	$1,986	$ 9,791	$(4,383)	$(360)	$13,091
Comprehensive income, net of tax:								
Net income						851		851
Net unrealized gains on investment securities							144	144
Total comprehensive income								995
Stock-based compensation plans:								
Restricted stock – compensation expense					8			8
Stock options – compensation expense					22			22
Net accretion on preferred stock	37					(37)		–
Preferred stock dividend						(319)		(319)
Common stock dividend, 5%				125	559	(684)		–
Issuance of common stock (528,655 shares)				529	2,595			3,124
Balance, December 31, 2010	5,912	182	–	2,640	12,975	(4,572)	(216)	16,921
Comprehensive income, net of tax:								
Net income						1,405		1,405
Net unrealized gains on investment securities							226	226
Total comprehensive income								1,631
Stock-based compensation plans:								
Restricted stock – compensation expense					23			23
Stock options – compensation expense					28			28
Redemption of preferred stock and related warrant (6,238 shares)	(6,056)	(182)						(6,238)
Issuance of preferred stock (7,492 shares)			7,492					7,492
Net accretion on preferred stock	144					(144)		–
Preferred stock dividend						(207)		(207)
Issuance of common stock (47,750 shares)				48	248			296
Balance, December 31, 2011	**$ –**	**$ –**	**$7,492**	**$2,688**	**$13,274**	**$(3,518)**	**$ 10**	**$19,946**

See notes to consolidated financial statements.

Centric Financial Corporation

Consolidated Statement of Cash Flows

(in thousands)	Year Ended December 31, 2011	2010
Cash flows from operating activities		
Net income	$ 1,405	$ 851
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,098	684
Depreciation and amortization	471	401
Stock-based compensation	51	30
Deferred income tax benefit	(494)	(289)
Net change in loans originated for sale	(35)	(270)
Net gain on sale of loans	(90)	(25)
Increase in accrued interest receivable	(95)	(49)
Decrease in accrued interest payable	(27)	(30)
Security impairment losses realized in earnings	62	–
Decrease in prepaid federal depository insurance	225	272
Net (gain) loss on sale of assets	(36)	40
Other, net	(133)	225
Net cash provided by operating activities	2,402	1,840
Cash flows from investing activities		
Redemptions of certificates of deposits, net	3,431	1,649
Maturities and principal pay downs of available-for-sale securities	10,535	8,911
Maturities and principal pay downs of held-to-maturity securities	130	323
Purchases of available-for-sale securities	(12,967)	(10,516)
Purchases of regulatory stock	(326)	(9)
Redemption of regulatory stock	25	–
Net increase in loans	(33,100)	(35,233)
Purchases of bank premises and equipment	(2,303)	(1,472)
Proceeds from disposal of other real estate owned	492	483
Increase in cash surrender value of life insurance	(1,300)	–
Other, net	17	16
Net cash used by investing activities	(35,366)	(35,848)
Cash flows from financing activities		
Net increase in deposits	49,115	36,207
Proceeds from long-term debt	4,812	2,000
Payments on long-term debt	(4,000)	(2,368)
Dividends paid - preferred stock	(187)	(278)
Proceeds from issuance of common stock	296	3,124
Net proceeds from issuance of preferred stock	7,492	–
Net payments from redemption of preferred stock	(6,238)	–
Net cash provided by financing activities	51,290	38,685
Net increase in cash and cash equivalents	18,326	4,677
Cash and cash equivalents at beginning of period	14,010	9,333
Cash and cash equivalents at end of period	**$32,336**	**$14,010**

	2011	2010
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,147	$ 3,276
Income taxes	60	–
Supplemental schedule of noncash investing and financing activities:		
Other real estate acquired in settlement of loans	650	884

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 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.

Centric is subject to regulation and supervision of the Pennsylvania Department of Banking and the FDIC.

Basis of Presentation

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

Estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense, and the nature and extent of disclosures. Ultimate results could differ significantly from those estimates and assumptions. Centric's material estimates that are particularly susceptible to significant change in the near term relate to the valuation of loans, the allowances for loan and other credit losses, other-than-temporary impairment evaluations of securities, evaluation of goodwill impairment, deferred tax valuations, 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 include cash, balances due from banks, interest-bearing demand deposits in other banks, and federal funds sold with original maturities of 90 days or less. Federal funds sold are generally for one-day periods. The Bank is required to maintain average balances with the Federal Reserve Bank, amounting to $2,929,000 and $1,272,000 at December 31, 2011 and 2010, respectively.

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.

Securities

Investment securities must be 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 (OTTI) 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 Operations.

Loans

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

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

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

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

Allowance for Loan Losses

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

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

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 commercial real estate construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent.

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

Unfunded Credit Commitments

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

Restricted Investments in Bank Stocks

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

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

The FHLB of Pittsburgh has, in prior years, incurred losses and suspended the payment of dividends. The losses are primarily attributable to impairment of investment securities associated with the economic conditions in place over the last few years. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. More consideration was given to the long-term prospects for the FHLB as opposed to the stress caused by the economic conditions. Management also considered that the FHLB's regulatory capital ratios have increased from the prior year, liquidity appears adequate, and new shares of FHLB Stock continue to exchange hands at the $100 par value.

Goodwill

Goodwill represents the amount paid to acquire the Bank beyond the fair value of the identifiable net assets acquired. Goodwill is not amortized but rather is tested for impairment at least annually. For federal tax purposes, goodwill is amortized on a straight-line basis over 15 years. There was no impairment of goodwill for 2011 and 2010.

Core Deposit Intangibles

Core deposit intangibles represent the asset identified for depositor relationships acquired with the Bank. This asset was valued at acquisition based upon the economic advantages of core deposits as a funding source. This acquired asset is being amortized using an accelerated method with an estimated useful life of ten years; $12,000 and $14,000 of amortization expense was recognized in 2011 and 2010, respectively. The unamortized balance was $31,000 and $43,000 at December 31, 2011 and 2010, respectively. Amortization expense will be $10,000, $8,000, $6,000, $4,000, $2,000, and $1,000 for years 2012, 2013, 2014, 2015, 2016, and thereafter, respectively.

Mortgage Servicing Rights and Related Credit Enhancement Fees

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

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 are $41,000 and $70,000 at December 31, 2011 and 2010, respectively. These assets are amortized based upon portfolio activity and subject to ongoing evaluation for any permanent impairment.

MPF portfolio fees earned amounted to $53,000 and $73,000 for 2011 and 2010, respectively. The MPF portfolio balance was $12,092,000 and $17,116,000 at December 31, 2011 and 2010, respectively. The FHLB maintains a first-loss position for the MPF portfolio that totals $283,000. Should the FHLB exhaust its first-loss position, recourse to the Bank's credit enhancement would be up to the next $113,000 of losses. The Bank has not experienced any losses for the MPF portfolio. The value of credit enhancement fees receivable, net of an estimated liability, was $25,000 and $35,000 at December 31, 2011 and 2010, respectively.

Transfers of Financial Assets

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

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

Advertising Costs

The Bank charges advertising costs to expense as accrued.

Earnings Per Share

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

Anti-dilutive options and warrants to purchase 25,054 and 37,767 shares of common stock, at a weighted-average price of $5.62 and $5.44 outstanding at December 31, 2011 and 2010, respectively; and unvested restricted shares of 3,693 and 5,206 at a price of $5.53 and $5.44 at December 31, 2011 and 2010, respectively, were not included in dilutive earnings per share.

(in thousands, except share data)	2011	2010
Net income	$ 1,405	$ 851
Preferred stock dividends	(351)	(356)
Net income available to common shareholders	$ 1,054	$ 495
Weighted-average number of shares outstanding (basic)	2,658,251	2,282,592
Effect of dilutive securities	16,724	6,519
Weighted average number of shares outstanding (diluted)	2,674,975	2,289,111
Per share information:		
Basic earnings per share	$ 0.40	$ 0.22
Diluted earnings per share	$ 0.39	$ 0.22

The earnings per share calculations give retroactive effect to the 5 percent stock dividend declared on January 20, 2011.

Stock-Based Compensation

Centric records the cash flow from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefit) be classified as financing cash flows. During 2011 and 2010, no stock options were exercised.

Accumulated Other Comprehensive Income or Loss

Centric recognizes revenue, expenses, gains, and losses 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, 2011 and 2010, as follows:

(in thousands)	2011	2010
Accretion of unrealized loss on securities transferred into held to maturity	$ 34	$ 34
Change in net unrealized losses on securities available for sale	270	105
Non-credit portion of OTTI recognized in the current year	(54)	–
Accretion of non-credit portion of OTTI recognized in prior years	92	79
Net unrealized gains before taxes	342	218
Tax effect	(116)	(74)
Net change	$226	$144

The components of accumulated other comprehensive loss at December 31, 2011 and 2010, are as follows:

(in thousands)	2011	2010
Net unrealized losses on securities available for sale	$433	$ 162
Unaccreted losses on securities transferred into held to maturity	(66)	(100)
Unaccreted non-credit portion of OTTI	(352)	(390)
Total accumulated other comprehensive income (loss) before taxes	15	(328)
Tax effect	(5)	112
Total accumulated other comprehensive income (loss)	$ 10	$(216)

Note 2: Investment Securities

The Consolidated 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 is as follows:

(in thousands)	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 8,999	$ 28	$ –	$ 9,027
Municipal securities	304	1	–	305
Mortgage-backed securities:				
Government issued or guaranteed	15,210	410	(7)	15,613
Privately issued residential	77	1	–	78
Total	$24,590	$440	$ (7)	$25,023

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 5,000	$ 17	$(17)	$5,000
Mortgage-backed securities:				
Government issued or guaranteed	16,888	209	(60)	17,037
Privately issued residential	372	13	–	385
Total	$22,260	$239	$(77)	$22,422

A summary of securities held to maturity is as follows:

(in thousands)	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
Privately issued residential	$931	$8	$43)	$ 896

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
Privately issued residential	$1,052	$189	$(43)	$1,198

Securities with a fair value of $20,221,000 and $22,416,000 were pledged to collateralize bank deposits by Pennsylvania local governments, FHLB advances and the discount window as of December 31, 2011 and 2010, respectively.

The amortized cost and fair value of debt securities at December 31, 2011, 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	$ 3,501	$ 3,581	$ –	$ –
Due after one year through five years	13,109	13,321	–	–
Due after five years through ten years	6,282	6,356	–	–
Due after ten years	1,698	1,765	931	896
Total investment securities	$24,590	$25,023	$931	$896

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

(in thousands)	December 31, 2011					
	Less than 12 Months		**12 Months or Greater**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mortgage-backed securities:						
Government issued or guaranteed	$ 863	$ (7)	$–	$–	$ 863	$ (7)
Privately issued residential	850	(43)	–	–	850	(43)
Total temporarily impaired securities	$1,713	$(50)	$–	$–	$1,713	$(50)

	December 31, 2010					
	Less than 12 Months		**12 Months or Greater**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government agency securities	$2,483	$ (17)	$–	$–	$2,483	$ (17)
Mortgage-backed securities:						
Government issued or guaranteed	4,744	(60)	–	–	4,744	(60)
Privately issued residential	100	(43)	–	–	100	(43)
Total temporarily impaired securities	$7,327	$(120)	$–	$–	$7,327	$(120)

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

Centric reviews investment securities on an ongoing basis for potential impairment which would be other-than-temporary and has adopted the provision which provides for the bifurcation of OTTI into two categories: (a) the amount of the total OTTI related to a decrease in expected cash flows to be collected (credit loss) which is recognized through earnings; and (b) the amount of OTTI related to all other factors, which is recognized, net of income taxes, as a component of Other Comprehensive Income ("OCI"). Centric recorded credit-related impairment of $62,000 on one private label mortgage-backed securities through earnings during the year ended December 31, 2011. There were no OTTI write downs for any securities for the year ended December 31, 2010. There were seven securities that were temporarily impaired at December 31, 2011.

Changes in credit losses during 2011 and 2010 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)	2011	2010
Estimated credit losses – beginning balance	$301	$301
Additions for credit losses not previously recognized	62	–
Reductions for increases in cash flows	–	–
Reductions for realized losses	–	–
Estimated credit losses – ending balance	$363	$301

There were no sales or proceeds from sales of securities in 2011 or 2010.

Note 3: Loans

The composition of loans, net of unamortized loan origination fees of $(86,000) and $(32,000), at December 31, 2011 and 2010 are as follows:

(in thousands)	2011	2010
Commercial	$ 28,903	$ 25,554
Real estate:		
Construction and land development	9,538	8,585
Commercial non-owner occupied and investment	67,804	48,674
Commercial all other	46,254	41,525
Residential	14,690	13,512
Home equity lines of credit	12,096	9,339
Consumer	657	707
Total loans	179,942	147,896
Allowance for loan losses	(2,482)	(1,812)
Net loans	$177,460	$146,084

The Bank had $395,000 and $270,000 of loans held for sale on its balance sheet at December 31, 2011 and 2010, respectively.

Note 4: Allowance for Loan Losses

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

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

The allowance for loan losses was further segmented into classes to break out non-owner occupied and investment commercial real estate from the remainder of commercial real estate. Due to the amount of available history the Bank has migrated from using peer loss statistics to actual experience as a component of the qualitative factors. Each segment is reviewed at least quarterly and adjusted based on the following qualitative factors: economic conditions, volume, trends in delinquencies, nonperforming and classified loans, collateral value, personnel, and policy and procedures.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of approximately $2,482,000 adequate to cover loan losses inherent in the loan portfolio, as of and for the year ending December 31, 2011. The following table presents, by portfolio segment, the activity within the allowance for loan loss and the ending balance of the allowance for loan loss:

(in thousands)	Commercial	Commercial Real Estate	Residential Real Estate	Home Equity Lines of Credit	Consumer	Unallocated	Total
Balance at December 31, 2010	$330	$ 952	$105	$ –	$170	$255	$1,812
Charged-off loans	(73)	(361)	–	–	(18)	–	(452)
Recoveries	8	15	1	–	–	–	24
Provision	183	889	42	132	(48)	(100)	1,098
Balance at December 31, 2011	$448	$1,495	$148	$132	$104	$155	$2,482

Allowance for loan loss activity during 2010 is as follows:

(in thousands)	2010
Balance at beginning of period	$1,355
Charged-off loans	(230)
Recoveries	3
Provision	684
Balance at end of period	$1,812

The following table presents, by portfolio segment, the recorded investment in those loans:

(in thousands)	December 31, 2011		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Commercial	$ 168	$ 280	$ 448
Real estate:			
Commercial non-owner occupied and investment	–	886	886
Commercial all other	–	609	609
Residential	–	148	148
Home equity lines of credit	–	132	132
Consumer	–	104	104
Unallocated	–	155	155
Total	$ 168	$ 2,314	$ 2,482
Loans, ending balance:			
Commercial	$1,082	$ 27,821	$ 28,903
Real estate:			
Commercial non-owner occupied and investment	1,160	66,644	67,804
Commercial all other	453	55,339	55,792
Residential	–	14,690	14,690
Home equity lines of credit	–	12,096	12,096
Consumer	–	657	657
Total	$2,695	$177,247	$179,942

Credit Quality and Aging:

The following tables represent credit exposures by internally assigned grades. 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 also sub-segments the commercial real estate segment into the following two classes: commercial real estate non-owner occupied and investment and commercial real estate all other.

The Bank's internally assigned grades are as follows:

- Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.
- Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.
- Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.
- Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

(in thousands)	December 31, 2011		
	Commercial	Commercial Real Estate Non-owner	Commercial Real Estate All Other
Pass	$25,951	$66,823	$55,015
Special mention	1,869	87	63
Substandard	1,083	894	714
Doubtful	–	–	–
Loss	–	–	–
Total	$28,903	$67,804	$55,792

(in thousands)	December 31, 2011		
	Residential Real Estate	Home Equity Lines of Credit	Consumer
Performing	$14,571	$12,096	$585
Nonperforming	119	–	72
	$14,690	$12,096	$657

Past Due and Nonaccrual Loans:

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

The following table presents performing and nonperforming loans and aging analysis of the recorded investment of past due financing receivables, broken by segment and sub-segment, based on payment activity for the year ended December 31, 2011. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due.

(in thousands)	December 31, 2011					
	30–89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	Non-Accrual
Commercial	$ 83	$ 894	$ 977	$ 27,926	$ 28,903	$ 894
Real estate:						
Commercial non-owner occupied and investment	372	875	1,247	66,557	67,804	875
Commercial all other	293	224	517	55,275	55,792	224
Residential	194	119	313	14,377	14,690	119
Home equity lines of credit	–	–	–	12,096	12,096	–
Consumer	–	72	72	585	657	72
Total	$942	$2,184	$3,126	$176,816	$179,942	$2,184

There were no loans 90 days past due and still accruing during 2011 or 2010.

Following is a summary of information regarding the Bank's past due and nonperforming loans as of and for the year ended December 31, 2010:

(in thousands)	2010
Loans 90 days or more past due	
Commercial, financial, and agricultural	$1,007
Real estate	940
Consumer	118
Total	$2,065

Nonaccrual loans	$2,065
Interest income that would have been accrued at original contract rates	143
Amount recognized as interest income	–
Foregone revenue	$ 143

Impaired Loans:

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

Loans acquired with deteriorated credit quality had outstanding contractual balances of $244,000 and $332,000 and carrying amounts of $134,000 and $200,000 as of December 31, 2011 and 2010, respectively.

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable.

(in thousands)	December 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 312	$ 459	$ –	$ 297	$19
Real estate:					
Commercial non-owner occupied and investment	1,160	1,355	–	745	22
All other	453	454	–	181	29
Residential	–	15	–	2	–
Home equity lines of credit	–	–	–	–	–
Consumer	–	–	–	–	–
With an allowance recorded:					
Commercial	770	853	168	835	3
Real estate:					
Commercial non-owner occupied and investment	–	–	–	–	–
All other	–	–	–	–	–
Residential	–	–	–	–	–
Home equity lines of credit	–	–	–	–	–
Consumer	–	–	–	–	–
Total	$2,695	$3,136	$168	$2,060	$73

The following table summarized information concerning impaired loans as of and for the year ended December 31, 2010:

(in thousands)	2010
Loans with a related allowance for loan losses	$1,051
Loans written down to fair value at acquisition of bank	200
Loans without a related allowance for loan losses	160
Total outstanding balance at year-end	$1,411
Related allowance for loan losses	$94
Average outstanding balance of impaired loans for the year	1,181
Interest income recognized on impaired loans	70

Loan Modifications:

Situations may arise that would cause the Bank to grant a concession for other-than-temporary purpose to the borrower that the Bank would not otherwise consider. The loan receiving the concession would then be classified as a Trouble Debt Restructure ("TDR"). The situations leading to the concession may be economic or legal in nature and affect the borrower's ability to meet the contractual obligation to the Bank. Management actively attempts to identify borrowers having financial difficulty early, and work with them to modify terms prior to the loan becoming nonaccrual. Modifications may include rate reductions, payment forbearance, principal reduction, or other actions with the intent to minimize the loss and/or avoid foreclosure or repossession of collateral. In cases where a restructure occurs, management measures impairment based on collateral to support the revised terms of the loan. If the loan is not collateral dependent, impairment is calculated using the present value of the revised loan terms compared to the investment in the loan prior to the restructure. TDRs are individually evaluated and provided for in the allowance for loan and lease 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. Based on this evaluation, management would no longer consider a loan to be a TDR when the facts support such a conclusion.

Loan modifications that are considered TDRs completed during the year ended December 31, 2011 were as follows:

(in thousands)	December 31, 2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	–	$ –	$ –
Real estate:			
Commercial non-owner occupied and investment	2	578	578
Commercial all other	1	739	739
Residential	–	–	–
Home equity lines of credit	–	–	–
Consumer	–	–	–
Total	3	$1,317	$1,317

During the year ended December 31, 2011, no loans modified and considered TDRs made during the 12 months previous to December 31, 2011, have defaulted.

Note 5: Premises and Equipment

Ongoing additions to premises and equipment are recorded at cost. Occupancy and equipment expense includes depreciation expense of $344,000 and $298,000, respectively, for the years ending 2011 and 2010. Depreciation expense was calculated on the straight-line method over estimated economic lives: buildings and improvements, 15 to 40 years; leasehold improvements, ten years; furniture, fixtures and equipment, three to ten years.

Premises and equipment at year-end comprised:

(in thousands)	2011	2010
Land	$2,929	$1,351
Buildings and improvements	1,535	1,111
Leasehold improvements	1,473	1,473
Furniture, fixtures, and equipment	1,307	1,035
Subtotal	7,244	4,970
Less: accumulated depreciation	(1,093)	(760)
Premises and equipment – net	$6,151	$4,210

Lease expense amounted to $164,000 for 2011 and $165,000 for 2010. Future minimum lease payments due in the year ending December 31, are as follows:

(in thousands)	
2012	$ 134
2013	161
2014	173
2015	178
2016	183
Thereafter	230
	$1,059

Commitments payable related to the building of the Camp Hill branch amounted to $33,000 at December 31, 2011.

Note 6: Deposits

Centric's deposits at December 31, were comprised of:

(in thousands)	2011	2010
Demand, non-interest-bearing	$ 15,830	$ 13,128
Demand, interest-bearing	79,348	47,573
Savings	21,178	21,676
Money market	23,646	20,138
Time deposits	83,585	71,953
	$223,587	$174,468

Scheduled maturities of time deposits are:

(in thousands)	2011	2010
Within one year	$48,800	$38,213
One to two years	31,467	23,839
Two to three years	615	9,089
Three to four years	508	492
Four to five years	2,195	320
	$83,585	$71,953

Time deposits in denominations of $100,000 or greater totaled $39,117,000 for 2011 and $30,945,000 for 2010.

Note 7: Long-term Debt

The Bank is approved by the FHLB for borrowings of up to $80,246,000. At year-end, $6,942,000 was outstanding and $8,500,000 was held as a letter of credit to secure specific deposit balances. Additional borrowing capacity for FHLB borrowings was $64,804,000 at year-end.

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

(in thousands)	Principal Amount		Rate	
	2011	**2010**	**2011**	**2010**
Advances from FHLB				
Fixed	$4,130	$6,130	2.21%	2.75%
Amortizing	2,812	–	1.17%	0.00%
Other borrowings	2,500	2,500	6.25%	6.25%
	$9,442	$8,630	2.97%	3.76%

The aggregate amount of future principal payments required on these borrowing at December 31, 2011 is as follows:

(in thousands)	
2012	$2,679
2013	5,056
2014	562
2015	569
2016	576
	$9,442

Note 8: Stock Plans and 401K

401(k) Plan

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 25 percent of employees' contributions, subject to a maximum contribution of 1 percent of an employee's compensation. Matching contributions vest to the employee after three years. For the years ended December 31, 2011 and 2010, expense attributable to the plan amounted to $12,000 and $9,000, respectively, and is included in salaries and employee benefits.

Stock Options and Warrants

The Company has a Stock Incentive Plan (the "Plan") that includes directors and other designated employees. The Plan covers 240,000 shares of common stock. Shares available for grant at December 31, 2011 were 111,539.

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

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

Options and warrants outstanding at December 31, 2011, consisted of the following:

	Options	Weighted-Average Exercise Price
Outstanding at the beginning of the year	105,108	$5.31
Granted	20,222	5.76
Exercised	–	–
Forfeited	(2,209)	5.44
Outstanding at the end of the year	123,121	$5.38
Exercisable at December 31	96,385	$5.32

At December 31, 2011, the aggregate intrinsic value of all options and warrants outstanding and exercisable were approximately $76,000 and $66,000, respectively. The weighted average remaining life of outstanding and exercisable options and warrants is 7.17 and 6.80 years, respectively. No options were exercised during 2011 or 2010.

For the years ended December 31, 2011 and 2010, stock option compensation expense of $28,000 and $22,000 was recognized in connection with the option plan, respectively. Tax benefits of $12,000 and $8,000 were recognized relative to these stock options at December 31, 2011 and 2010, respectively. At December 31, 2011, future compensation expense related to non-vested stock option grants is expected to be recognized as $15,000, $5,000 and $1,000 in 2012, 2013, and 2014, respectively.

Common stock warrants were issued in 2006, to certain directors to purchase an aggregate share of common stock pursuant to the warrant grant. At December 31, 2011, 26,580 shares were outstanding and exercisable related to these warrants, with a weighted average exercise price of $4.91. No warrants were exercised during 2011 or 2010.

During 2010, the Company also granted one warrant to each of the directors of the Company. Each warrant represents 31,500 shares for a total of 315,000 shares, all of which vest only upon a change in control of the Company. During 2010 and 2011 none of these warrants vested, and the Company recorded no compensation expense associated with this grant.

The fair value of the options granted during the years ended December 31, 2011 and 2010 were 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 plans						
2011	**$5.71**	**0.00%**	**14.09%**	**5**	**1.53%**	**$0.91**
2010	5.44	0.00	14.42	5	2.37	1.00
Employee stock plans						
2011	**$5.78**	**0.00%**	**14.07%**	**6.5**	**2.27%**	**$1.22**
2010	5.44	0.00	14.42	6.5	2.89	1.28

Restricted Stock

Under the Plan, the Company awarded 16,882 restricted shares to non-employee directors and executive officers subject to vesting and other provisions. At December 31, 2010, 5,446 shares granted to the Plan participants had vested and been distributed. No shares have vested during 2011.

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	9,734	$5.44
Granted	2,358	5.81
Vested	–	–
Forfeited	(656)	5.44
Non-vested shares at the end of the year	11,436	$5.52

For the years ended December 31, 2011 and 2010, compensation expenses of $23,000 and $8,000 were recognized in connection with restricted stock, respectively. Tax benefits of $8,000 and $3,000 were recognized relative to these shares at December 31, 2011 and 2010, respectively. Future compensation expenses related to non-vested restricted stock at December 31, 2011 was $27,000, $4,000, and $1,000 in 2012, 2013, and 2014, respectively.

Note 9: Income Taxes

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

(in thousands)	2011	2010
Currently payable	$ 48	$ 42
Deferred taxes	257	225
Valuation allowance against deferred tax asset	(751)	(514)
	$(446)	$(247)

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

(in thousands)	2011	2010
Deferred tax assets:		
Allowance for loan losses	$ 844	$ 616
Impairment losses on securities	228	245
Stock incentive expense	28	16
Uncollected interest	83	88
Unrealized losses on securities available for sale	–	111
Net operating loss carryforward	–	432
Other	44	16
Gross deferred tax assets	1,227	1,524
Deferred tax valuation allowance	–	(751)
Total deferred tax assets	1,227	773
Deferred tax liabilities:		
Goodwill and core deposit intangible	40	30
Prepaid expenses	112	111
Loan origination costs	166	157
Unrealized gains on securities available for sale	5	–
Premises and equipment	111	58
Other	25	27
Total deferred tax liabilities	459	383
Net deferred tax assets	$ 768	$ 390

The Company has been in existence since February 8, 2007, and accumulated a net operating loss during its first three years of operation. As such, in 2009, management established a valuation allowance of $1,265,000 for its deferred tax assets, primarily the accumulated future tax benefits attributed to the operating loss carryforward and loan loss provisions since it was more likely than not that realization of these deferred assets would not be fully supported at that time. At December 31, 2010, the Company had available a net operating loss carryforward of $1,265,000 for federal income tax purposes. At December 31, 2011, the Company had completely used the operating loss carryforward. The Company no longer holds a valuation allowance at December 31, 2011.

The total benefit 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)	2011	2010
Computed statutory tax expense	$ 326	$ 205
Valuation allowance	(751)	(514)
Other, net	(21)	62
	$(446)	$(247)

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

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examination by tax authorities for years before 2008.

Note 10: 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, 2011, loans to related parties were $13,215,000 and deposits by related parties totaled $3,227,000. At December 31, 2010, loans to related parties were $6,635,000 and deposits by related parties totaled $3,429,000.

Related party loan activity is summarized as follows:

(in thousands)	2011	2010
Balance at the beginning of the period	$ 6,635	$7,002
Additions	7,479	1,475
Reductions	899	1,842
Balance at end of period	$13,215	$6,635

All of Centric's directors are customers of the Bank. Centric shareholders number approximately 174 and many are Bank customers situated in the south central Pennsylvania community. Conversely, the Bank is a customer of some shareholder-related entities in the ordinary course of business. The Bank also has a joint venture arrangement with an insurance agency affiliated with a director that began in 2001. During 2011, related party transactions include $79,000 of purchases and $19,000 in revenue; in 2010, there were $82,000 of purchases and $18,000 in revenue.

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

Note 11: Unfunded Credit Commitments

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

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

Unfunded lending commitments at year-end:

(in thousands)	2011	2010
Commitment to grant loans	$11,084	$ 4,581
Unfunded commitments under lines of credit	28,232	22,790
Standby letters of credit	636	733
Total unfunded credit commitments	$39,952	$28,104

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

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

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

The Bank did not incur any losses in 2011 or 2010 associated with financial instruments with off-balance sheet risk.

Note 12: Regulatory Matters

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

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

(in thousands)	December 31, 2011					
	Actual		For Capital Adequacy Purposes		Minimum to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	$21,670	12.00%	$14,447	8.00%	$ N/A	N/A
Bank	23,478	13.00%	14,448	8.00%	18,060	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	19,409	10.74%	7,229	4.00%	N/A	N/A
Bank	21,216	11.74%	7,229	4.00%	10,843	6.00%
Tier 1 capital (to total assets)						
Company	19,409	8.03%	9,668	4.00%	N/A	N/A
Bank	21,216	8.79%	9,655	4.00%	12,068	5.00%

(in thousands)	December 31, 2010					
	Actual		For Capital Adequacy Purposes		Minimum to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)						
Company	$18,438	12.27%	$12,022	8.00%	$ N/A	N/A
Bank	19,988	13.34%	11,987	8.00%	14,984	10.00%
Tier 1 capital (to risk-weighted assets)						
Company	16,595	11.05%	6,007	4.00%	N/A	N/A
Bank	18,145	12.11%	5,993	4.00%	8,990	6.00%
Tier 1 capital (to total assets)						
Company	16,595	8.28%	8,017	4.00%	N/A	N/A
Bank	18,145	9.09%	7,985	4.00%	9,981	5.00%

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

Note 13: 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 table presents the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2011 and 2010, 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, 2010			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	$–	$ 9,027	$–	$ 9,027
Municipal securities	–	305	–	305
Mortgage-backed securities:				
Government issued or guaranteed	–	15,613	–	15,613
Privately issued residential	–	78	–	78
Fair value measured on a non-recurring basis:				
Other real estate owned	–	–	720	720
Impaired loans	–	–	2,949	2,949

(in thousands)	December 31, 2010			
	Level I	Level II	Level III	Total
Assets:				
Fair value measured on a recurring basis:				
U.S. government agency securities	$–	$ 5,000	$–	$ 5,000
Mortgage-backed securities:				
Government issued or guaranteed	–	17,037	–	17,037
Privately issued residential	–	385	–	385
Fair value measured on a non-recurring basis:				
Other real estate owned	–	–	510	510
Impaired loans	–	–	1,317	1,317

During the valuation process for impaired loans, management may rely on unobservable inputs to derive fair value. The unobservable inputs may include measurements such as: future selling costs, estimates on future income generation, and discounts to appraised value.

Note 14: Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments as of December 31 is as follows:

(in thousands)	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 32,336	$ 32,336	$ 14,010	$ 14,010
Investments in certificates of deposit	5,394	5,394	8,825	8,825
Securities available for sale	25,023	25,023	22,422	22,422
Securities held to maturity	931	896	1,052	1,198
Net loans	177,460	184,033	146,084	152,790
Loans held for sale	395	395	270	270
Regulatory stock	807	807	506	506
Cash surrender value life insurance	1,337	1,337	–	–
Mortgage servicing rights and credit enhancement fees	67	68	105	136
Accrued interest receivable	570	570	475	475
Financial liabilities:				
Deposits	$223,587	$224,722	$174,468	$175,630
Other borrowings	9,442	9,459	8,630	8,683
Accrued interest payable	126	126	153	153

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

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

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

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

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

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

Cash and Cash Equivalents, Investments in Certificates of Deposit, Regulatory Stock, Cash Surrender Value Life Insurance, Accrued Interest Receivable, and Accrued Interest Payable
The fair value is equal to the current carrying value.

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

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

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

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

Commitments to Extend Credit
These financial instruments are generally not subject to sale and estimated fair values are not readily available. The carrying value is represented by the net deferred fees arising from the unrecognized commitment or letter of credit. The fair value is determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk. Neither the carrying value nor the fair value is considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 11.

Note 15: Participation in U.S. Treasury Programs

Centric entered into a Securities Purchase Agreement ("Agreement") on December 18, 2009, with the U.S. Department of the Treasury ("Treasury") in association with its participation in the Capital Purchase Program ("CPP") of the Emergency Economic Stabilization Act of 2008 ("EESA"). Pursuant to the agreement, Centric sold to the Treasury 6,056 shares of fixed rate, noncumulative Senior Perpetual Preferred Stock, par value $1.00 per share, having a liquidation amount of $1,000 per share, with an attached warrant to purchase 182 shares of Centric's preferred stock for the aggregate price of $6.1 million.

The preferred stock Series A qualifies as Tier 1 capital and pays quarterly dividends, beginning February 2010, at a rate of 5 percent per year, for the first five years and 9 percent per year thereafter. The warrants pay dividends quarterly, beginning February 2010, at a rate of 9 percent. Under the terms of the CPP, the preferred stock may be redeemed with the approval of the Federal Reserve in the first three years with the proceeds from the issuance of certain qualifying Tier 1 capital or after three years at par value plus accrued and unpaid dividends.

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

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

Note 16: Common Stock

In January 2011, the Board of Directors approved a 5 percent stock dividend to shareholders of record as of March 31, 2011, with a payment date of April 30, 2011. All per share information included herein has been retroactively adjusted.

On November 15, 2010, Centric Financial Corporation ended a private stock offering of up to 1,000,000 shares of $1.00 par value common stock to accredited investors. Accompanying the purchase of common shares during the offering was a warrant to purchase an equal amount of common shares at $6.19 per share (adjusted for the 5 percent stock dividend above) exercisable for the period of April 15, 2011 through July 15, 2011. The exercisable period for the purchase of warrants was extended through October 31, 2012 at the Board of Directors meeting in March 2011. During 2011, five warrants were exercised for a total of 47,750 shares of stock at the stated price of $6.19. The value of the services received in connection with this agreement have been measured utilizing the Black-Scholes model as of the date of the issuance of the warrant. Due to the higher purchase price of the shares under this warrant over the current price of the Centric's stock, and the lack of volatility in Centric's stock price, there was no expense associated with these instruments, nor any impact in diluted earnings per share.

Note 17: Subsequent Events

Management has reviewed events occurring through February 29, 2012, the date the financial statements were issued and no subsequent events have occurred requiring accrual or disclosure.

To

DENTISTS,

ENGINEERS,

PRINTERS,

HOTELIERS,

LANDSCAPERS,

and **DOCTORS**

we are your

Financial First Responders,

thanks to our

shareholders and

depositors.

Centric Bank
LEADERSHIP TEAM

BOARD OF DIRECTORS

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

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

LENDING TEAM AND COMMERCIAL SERVICES

▲ **Standing left to right:** Gale E. Gallo, Mortgage Lending Officer; Peggy J. Elder, Vice President, Loan Operations & Compliance; Paul B. Zwally, Vice President, Commercial Lending; Michael J. Meck, Vice President, Commercial Lending; Sascha C. Leftault, Commercial Loan Officer; Robert E. McDonald, Vice President, Commercial Lending; Michael J. Watson, Vice President, Commercial Lending; and Maura E. Fay, Mortgage & Consumer Underwriter.

Seated left to right: Sheri L. Brown, Senior Vice President, Chief Credit Officer; Jeffrey W. Myers, Executive Vice President, Chief Lending Officer; and Jeian J. Rauchut, Vice President, Cash Management Manager.

MANAGEMENT TEAM

▲ **Standing left to right:** Leslie A. Meck, Senior Vice President, Chief Retail Officer; Shane E. McNaughton, Senior Vice President, Management Information Systems; Sandra L. J. Schultz, Executive Vice President, Chief Financial Officer; and Sheri L. Brown, Senior Vice President, Chief Credit Officer.

Seated left to right: Patricia A. Husic, President & CEO and Jeffrey W. Myers, Executive Vice President, Chief Lending Officer.

LOWER PAXTON FINANCIAL CENTER

Left to right: Tia L. Zidik, Teller; Aaron P. Nadler, Assistant Branch Manager, Personal Banker; Flow Higgins, Branch Manager; and Amber N. Spotts, Personal Banker.

SILVER SPRING FINANCIAL CENTER

Left to right: Mary Anne Bayer, Assistant Vice President, Branch Manager; Dorothy L. Strine, Teller; and Marianna Golovkina, Teller Manager.

CAMP HILL FINANCIAL CENTER

Left to right: Angela M. Clements, Teller; Virginia O. Sutton, Teller; Vickie L. Broughton, Assistant Vice President, Branch Manager; and Shawn W. Wright, Personal Banker.

Centric Bank
FINANCIAL CENTERS

LOWER PAXTON FINANCIAL CENTER
4320 Linglestown Road
Harrisburg, PA 17112
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Fax (717) 657-7748

Hours
M – Th 8:30 a.m. to 5 p.m.
F 8:30 a.m. to 6 p.m.
Sat 8:30 a.m. to 12 Noon

SILVER SPRING FINANCIAL CENTER
6480 Carlisle Pike
Mechanicsburg, PA 17050
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Fax (717) 591-1363

Hours
M – Th 8:30 a.m. to 5 p.m.
F 8:30 a.m. to 6 p.m.
Sat 8:30 a.m. to 12 Noon

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

Hours
M – Th 8:30 a.m. to 5 p.m.
F 8:30 a.m. to 6 p.m.
Sat 8:30 a.m. to 12 Noon

Coming Soon!
DERRY TOWNSHIP FINANCIAL CENTER
1201 W. Governor Road
Hummelstown, PA 17036

Our Mission

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

Our Vision

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

Core Values

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

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

CENTRIC BANK

We Revolve Around You.

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