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CENTRAL FEDERAL CORP
Form 10KSB
March 30, 2005

FEDERAL
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-25045

CENTRAL FEDERAL CORPORATION.

(Name of Small Business Issuer in Its Charter)

Delaware
State or Other Jurisdiction of
Incorporation or Organization)

34-1877137
(I.R.S. Employer Identification No.)

2923 Smith Road, Fairlawn, Ohio
(Address of Principal Executive Offices)

44333
(Zip Code)

(330) 666-7979
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$.01 per share
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for the fiscal year ended December 31, 2004 were \$6.7 million.

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of March 15, 2005 was \$20,953,000.

As of March 15, 2005, there were 2,225,987 shares of the Registrant's Common

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Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Rule 14a-3(b) Annual Report to Shareholders for 2004 and its Proxy Statement for the 2005 Annual Meeting of Stockholders to be held on May 19, 2005, which was filed with the Securities and Exchange Commission (the "Commission") on March 30, 2005, are incorporated herein by reference into Parts II and III, respectively, of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check One): YES [] NO [X]

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FORWARD-LOOKING STATEMENTS

When used in this Form 10-KSB, or in future filings with the Commission, in press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Company's actual results to be materially different from those indicated. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the market areas where the Company conducts business, which could materially impact credit quality trends, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas where the Company conducts business, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART I

ITEM 1 DESCRIPTION OF BUSINESS

GENERAL

Central Federal Corporation (the "Company"), formerly known as Grand Central Financial Corp., was organized as a Delaware corporation in September 1998 as the holding company for CFBank (the "Bank"), a community-oriented savings institution which was originally organized in 1892 formerly known as Central Federal Savings and Loan Association of Wellsville and, more recently as Central Federal Bank, in connection with the Bank's conversion from a mutual to stock form of organization. As a savings and loan holding company, the Company is subject to regulation by the Office of Thrift Supervision (the "OTS"). Reserve Mortgage Services, Inc. ("Reserve"), a wholly owned subsidiary of the Bank, was acquired in October 2004 to expand the Company's mortgage services business. Central Federal Capital Trust I (the "Trust"), a wholly owned subsidiary of the Company, was formed in 2003 as to raise additional funding for the Company. Under new accounting guidance, FASB Interpretation No. 46, as revised in December 2003, the Trust is not consolidated with the Company. Accordingly, the Company does not report the securities issued by the Trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the Trust. Currently, the Company does not transact any material business other than through the Bank and its subsidiary mortgage services company and the Trust. At December 31, 2004, the Company had total assets of \$171.0 million and stockholders' equity of \$19.5 million.

The Company's principal business consists of attracting deposits from the

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general public primarily in its principal market area and investing those deposits and other funds, generated from operations and from borrowings, primarily to originate commercial and commercial real estate loans, single- and multi-family residential mortgage loans, home equity lines of credit and short-term consumer loans. To a lesser extent, the Company invests in closed-end home equity, construction and land loans. In 2003, the Company began originating more commercial, commercial real estate and multi-family mortgage loans than it had in the past as management positioned the Company for expansion into business financial services. The Company also invests in securities, primarily those guaranteed or insured by government agencies, and other investment-grade securities. Revenues are derived principally from the generation of interest and

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fees on loans originated and, to a lesser extent, interest and dividends on securities. The Company's primary sources of funds are retail savings deposits and, to a lesser extent, brokered certificates of deposit, principal and interest payments on loans and securities, FHLB advances and other borrowings and proceeds from the sale of loans. The Company operates through its executive offices in Fairlawn, Ohio, an office in Columbiana County, Ohio, an office in Jefferson County, Ohio, an office in Columbus, Ohio and a mortgage services location in Akron, Ohio.

MARKET AREA AND COMPETITION

The Company's primary market area is a competitive market for financial services and it faces competition both in making loans and in attracting deposits. Direct competition comes from a number of financial institutions operating in its market area, many with a state-wide or regional presence, and in some cases, a national presence. Many of these financial institutions are significantly larger and have greater financial resources than the Company. Competition for loans and deposits comes from savings institutions, mortgage banking companies, commercial banks and credit unions brokerage firms and insurance companies.

LENDING ACTIVITIES

LOAN PORTFOLIO COMPOSITION. The loan portfolio consists primarily of mortgage loans secured by single-family and multi-family residences and commercial real estate loans. At December 31, 2004, gross loans receivable totaled \$109.3 million. Commercial, commercial real estate and multi-family mortgage loans totaled \$52.7 million and represented 48.3% of the gross loan portfolio at December 31, 2004, compared to 17.8% at December 31, 2003. The increase in the percentage of commercial, commercial real estate and multi-family mortgage loans in the portfolio was a result of the growth strategy implemented in 2003 to expand into business financial services. Single-family residential mortgage loans totaled \$41.4 million and represented 37.9% of total gross loan at year-end 2004. The remainder of the portfolio consisted of the following at December 31, 2004: consumer loans totaled \$14.0 million, or 12.8% of gross loans receivable and construction loans totaled \$1.1 million, or 1.0% of gross loans receivable. At year-end 2004, 32.8% of the loan portfolio had fixed rates, compared to 55.7% at year-end 2003. The decline in the percentage of fixed rate loans in the portfolio was a result of growth in commercial, commercial real estate and multi-family mortgage loans during 2004, which are predominantly adjustable rate loans.

The types of loans originated are subject to federal and state law and regulations. Interest rates charged on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. In turn, these factors are affected by, among other things, economic conditions, fiscal policies of the federal government, the

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monetary policies of the Federal Reserve Board and legislative tax policies.

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The following table sets forth the composition of the loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	AT DECEMBER 31,			
	2004		2003	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
(DOLLARS IN THOUSANDS)				
Real estate mortgage loans:				
Single-family	\$ 41,450	37.94%	\$ 34,810	59.58%
Multi-family	25,602	23.43%	1,250	2.14%
Construction	1,127	1.03%	610	1.04%
Commercial real estate	20,105	18.40%	5,040	8.63%
Total real estate mortgage loans	88,284	80.80%	41,710	71.39%
Consumer loans:				
Home equity loans	663	0.61%	1,003	1.72%
Home equity lines of credit	5,928	5.43%	1,640	2.81%
Automobile	6,735	6.16%	9,292	15.90%
Other	626	0.57%	663	1.13%
Total consumer loans	13,952	12.77%	12,598	21.56%
Commercial loans	7,030	6.43%	4,116	7.05%
Total loans receivable	109,266	100.00%	58,424	100.00%
Less:				
Net deferred loan fees	(139)		15	
Allowance for loan losses	(978)		(415)	
Loans receivable, net	\$108,149		\$ 58,024	

LOAN MATURITY. The following table shows the remaining contractual maturity of the loan portfolio at December 31, 2004. Demand loans and other loans having no stated schedule of repayments or no stated maturity are reported as due within one year. The table does not include potential prepayments or scheduled principal amortization.

AT DECEMBER 31, 2004		
REAL ESTATE MORTGAGE	CONSUMER	COMMERCIAL

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(DOLLARS IN THOUSANDS)

Amounts due:			
Within one year	\$ 1,027	\$ 625	\$ 6,
	-----	-----	-----
After one year:			
More than one year to three years	2,483	2,549	2,
More than three years to five years	1,257	4,359	3,
More than five years to 10 years	24,197	1,801	3,
More than 10 years to 15 years	13,074	-	7,
More than 15 years	26,141	4,618	2,
	-----	-----	-----
Total due after 2005	67,152	13,327	20,
	-----	-----	-----
Total amount due	\$ 68,179	\$ 13,952	\$ 27,
	=====	=====	=====

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The following table sets forth at December 31, 2004, the dollar amount of total loans receivable contractually due after December 31, 2005, and whether such loans have fixed interest rates or adjustable interest rates.

	DUE AFTER DECEMBER 31, 2005		
	-----	-----	-----
	FIXED	ADJUSTABLE	TOTAL
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Real estate mortgage loans	\$21,131	\$46,021	\$ 67,152
Consumer loans	7,407	5,920	13,327
Commercial loans	5,386	15,485	20,871
	-----	-----	-----
Total loans	\$33,924	\$67,426	\$101,350
	=====	=====	=====

ORIGINATION OF LOANS. Lending activities are conducted through the Company's offices. In 2003, the Company began originating commercial, commercial real estate and multi-family mortgage loans as it started the process of utilizing its strong capital position to take advantage of opportunities for expansion into business financial services and growth in the Fairlawn and Columbus, Ohio markets. These loans are predominantly adjustable rate loans. A majority of the Company's single-family mortgage loan originations are fixed-rate loans. Beginning in 2002 and more pronouncedly in 2003 and 2004, current originations of long-term fixed-rate single-family mortgages were sold rather than retained in portfolio. Although the decision to sell current single-family mortgage originations rather than retain the loans in portfolio may result in declining single-family loan portfolio balances and lower earnings from that portfolio in the near term, it protects future profitability as management believes it is not prudent to retain these long-term, fixed-rate loans and subject the Company to the interest rate risk and reduced future earnings associated with a rise in interest rates. The Company allowed single-family mortgage loan portfolio balances to decline as interest rates fell to 40-year lows and home owners continued to refinance during 2003. The refinancing activity slowed as market mortgage interest rates increased in 2004. The growth in single-family mortgage loans in 2004 was predominantly adjustable rate loans. The acquisition of

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Reserve is expected to significantly expand the Company's mortgage services and increase the Company's mortgage loan production. Although the Company currently expects that most of the long-term fixed-rate mortgage loan originations will be sold on a servicing-released basis, a portion of the loans may be retained for portfolio within the Company's interest rate risk and profitability guidelines. The Company also emphasizes the origination of home equity lines of credit.

SINGLE-FAMILY MORTGAGE LENDING. A significant lending activity of the Company has been the origination of permanent conventional mortgage loans secured by single-family residences located in the Company's primary market area. The Company currently sells substantially all of the fixed-rate single-family mortgage loans that it originates on a servicing released basis. Prior to 2004, servicing rights were generally retained on loans sold. The Company retains adjustable rate mortgage ("ARM") single-family mortgage loans for its portfolio. Most single-family mortgage loans are underwritten according to Freddie Mac guidelines. Loan originations are obtained from the Company's mortgage services subsidiary, loan officers and their contacts with the local real estate industry, existing or past customers, and members of the local communities. At December 31, 2004, single-family mortgage loans totaled \$41.4 million, or 37.9% of total loans, of which \$19.5 million, or 47.2% were fixed-rate loans.

The Company's policy is to originate single-family residential mortgage loans in amounts up to 80% of the appraised value of the property securing the loan and up to 95% of the appraised value if private mortgage insurance is obtained. Mortgage loans generally include due-on-sale clauses which provide the

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Company with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without the Company's consent. Due-on-sale clauses are an important means of adjusting the rates on the fixed-rate mortgage loan portfolio, and the Company exercises its rights under these clauses. The single-family mortgage loan originations are generally for terms to maturity of up to 30 years.

The Company offers several adjustable-rate loan programs with terms of up to 30 years and interest rates that adjust with a maximum adjustment limitation of 2.0% per year and a 6% lifetime cap. The interest rate adjustments on ARM loans currently offered are indexed to a variety of established indices. ARM loans offered by the Company do not provide for initial deep discount interest rates or for negative amortization.

The volume and types of ARM loans originated have been affected by such market factors as the level of interest rates, consumer preferences, competition and the availability of funds. In recent years, demand for ARM loans in the Company's primary market area has been weak due to the low interest rate environment and consumer preference for fixed-rate loans. Consequently, in recent years the Company has not originated a significant amount of ARM loans as compared to its originations of fixed-rate loans. However, as a result of management's strategy to sell current long-term fixed rate loan production, ARM loans represent a larger percentage of the portfolio. At December 31, 2004, \$21.9 million, or 52.8% of the single-family mortgage loan portfolio had adjustable rates, compared to \$15.1 million, or 43.4% at December 31, 2003 and \$6.5 million, or 11% at December 31, 2002.

COMMERCIAL AND MULTI-FAMILY REAL ESTATE LENDING. In 2003, the Company expanded into business financial services and positioned itself for growth in the Fairlawn and Columbus, Ohio markets and, as a result, originations of commercial real estate and multi-family residential mortgage loans increased significantly. Commercial real estate and multi-family residential mortgage loans totaled \$45.7 million at December 31, 2004 or 41.8% of gross loans, an increase of \$39.4

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million compared to \$6.3 million or 10.8% of gross loans receivable at December 31, 2003. The Company anticipates that commercial real estate and multi-family residential mortgage lending activities will continue to grow in the future.

The Company originates commercial real estate loans that are secured by properties used for business purposes, such as manufacturing facilities, office buildings or retail facilities. Commercial real estate and multi-family residential mortgage loans are secured by properties generally located in its primary market area. The Company's underwriting policies provide that commercial real estate and multi-family residential mortgage loans may be made in amounts up to 85% of the appraised value of the property. In underwriting commercial real estate and multi-family residential mortgage loans, the Company considers the appraisal value and net operating income of the property, the debt service ratio and the property owner's financial strength, expertise and credit history.

Commercial real estate and multi-family residential mortgage loans are generally considered to involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by commercial real estate and multi-family properties are dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the property's income and debt coverage ratio and the financial strength of the owners.

COMMERCIAL LENDING. In 2003, the Company expanded into business financial services and positioned itself for growth in the Fairlawn and Columbus, Ohio markets and, as a result, originations of commercial loans increased. Commercial loans totaled \$7.0 million, or 6.4% of gross loans at December 31, 2004, an increase of \$2.9 million compared to \$4.1 million, or 7.1% of gross loans at December 31, 2003 and \$261,000 or .4% of gross loans at December 31, 2002. The Company anticipates that commercial lending activities will continue to grow in the future.

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The Company makes commercial business loans primarily to small business and generally secured by business equipment, inventory, accounts receivable and other business assets. In underwriting commercial loans, the Company considers the net operating income of the company, the debt service ratio and the financial strength, expertise and credit history of the owners.

Commercial loans are generally considered to involve a greater degree of risk than loans secured by real estate. Because payments on commercial loans are dependent on successful operation of the business enterprise, repayment of such loans may be subject to a greater extent to adverse conditions in the economy. The Company seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the enterprise's income and debt coverage ratio and the financial strength of the owners.

CONSTRUCTION AND LAND LENDING. The Company generally originates construction and land development loans to contractors and individuals in its primary market areas. Construction loans are made to finance the construction of owner-occupied single-family residential properties and, to a substantially lesser extent, individual properties built by developers for future sale. Construction loans to individuals are fixed or adjustable-rate loans which may convert to permanent loans with maturities of up to 30 years. The Company's policies provide that construction loans may be made in amounts up to 80% of the appraised value of the property for construction of single-family residences. The Company requires an independent appraisal of the property. Loan proceeds are disbursed in

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increments as construction progresses and as inspections warrant. The Company requires regular inspections to monitor the progress of construction. Land loans are determined on an individual basis, but generally they do not exceed 75% of the actual cost or current appraised value of the property, whichever is less.

Construction and land financing is considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, the Company may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

CONSUMER AND OTHER LENDING. The consumer loan portfolio generally consists of home equity lines of credit, automobile loans, home equity and home improvement loans and loans secured by deposits. Home equity lines of credit are generally ARM loans with rates adjusting monthly at up to 2% above the prime rate of interest as disclosed in The Wall Street Journal. At December 31, 2004, the consumer loan portfolio totaled \$14.0 million, or 12.8% of gross loans receivable.

Loans secured by rapidly depreciable assets such as automobiles entail greater risks than single-family residential mortgage loans. In such cases, repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance, since there is a greater likelihood of damage, loss or depreciation of the underlying collateral. Further, consumer loan collections on these loans depend on the borrower's continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default. A significant portion of the Company's automobile loans were originated on the Company's behalf by automobile dealers at the time of sale. This indirect lending requires the maintenance of relationships with such dealers. Such loans do not have the benefit of direct interaction between the borrowers and the Company's lending officers during the underwriting process, which is heavily reliant on information contained in the borrowers' credit reports.

DELINQUENCIES AND CLASSIFIED ASSETS. The Board of Directors monitors the status of all delinquent mortgage and commercial loans thirty days or more past due monthly. Additionally, the Board of

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Directors review past due statistics and trends for all consumer and installment loans. The procedures taken by the Company with respect to resolving delinquencies vary depending on the nature and type of the loan and period of delinquency. In general, the Company makes every effort, consistent with safety and soundness principles, to work with the borrower to have the loan brought current. If the loan is still not brought current it then becomes necessary for the Company to repossess collateral and/or take legal action.

Federal regulations and the Company's Classification of Assets Policy require use of an internal asset classification system as a means of reporting and monitoring assets. The Company has incorporated the OTS internal asset classifications as a part of its credit monitoring system. In accordance with regulations, problem assets are classified as "substandard," "doubtful" or "loss", and the classifications are subject to review by the OTS. An asset is considered "substandard" under the regulations if it is inadequately protected

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by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. An asset considered "doubtful" under the regulations has all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets considered "loss" under the regulations are those considered "uncollectible" and having so little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets are required to be designated "special mention" when they possess weaknesses but do not currently expose the insured institution to sufficient risk to warrant classification in one of these categories. In order to more closely monitor credit risk as the Company employs its growth strategy in business financial services, the Company has developed internal loan review procedures and a credit grading system for commercial, commercial real estate and multi-family mortgage loans, and also utilizes an external firm for loan review.

At December 31, 2004, no assets were designated as special mention; \$419,000 in assets were classified as substandard, 97.4% of which are single-family mortgage loans and real estate owned, \$1,000 in assets were classified as doubtful and no assets were classified as loss.

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The following table sets forth information concerning delinquent loans in dollar amounts and as a percentage of the total loan portfolio. The amounts presented represent the total remaining principal balances of the loans rather than the actual payment amounts which are overdue.

	DECEMBER 31, 2004				DECEMBER 31, 2003	
	60-89 DAYS		90 DAYS OR MORE		60-89 DAYS	
	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS
	(DOLLARS IN THOUSANDS)					
Real estate loans:						
Single-family	2	\$ 149	8	\$ 276	3	\$ 149
Multi-family	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Consumer loans:						
Home equity loans and lines of credit	1	7	-	-	3	7
Automobile	5	43	2	9	2	43
Unsecured lines of credit	-	-	-	-	-	-
Other	-	-	1	1	-	-
Commercial loans	-	-	-	-	1	-
Total delinquent loans	8	\$ 199	11	\$ 286	9	\$ 199
Delinquent loans as a percent of total loans		.18%		.26%		.18%

DECEMBER 31, 2002

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	60-89 DAYS		90 DAYS OR MORE	
	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS	NUMBER OF LOANS	PRINCIPAL BALANCE OF LOANS
(DOLLARS IN THOUSANDS)				
Real estate loans:				
Single-family	10	\$ 559	10	\$ 761
Multi-family	-	-	-	-
Construction	-	-	-	-
Commercial	-	-	-	-
Consumer loans:				
Home equity loans and lines of credit	-	-	-	-
Automobile	1	5	3	19
Unsecured lines of credit	-	-	1	1
Other	2	6	-	-
Commercial loans	-	-	-	-
Total delinquent loans	13	\$ 570	14	\$ 781
Delinquent loans as a percent of total loans		.91%		1.25%

The table does not include delinquent loans less than 60 days past due. At December 31, 2004, 2003 and 2002, loans past due 30 to 59 days totaled \$ 549,000, \$481,000, and \$517,000, respectively.

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NONPERFORMING ASSETS. The following table contains information regarding nonperforming loans, real estate owned ("REO") and other repossessed assets. At December 31, 2004, nonperforming loans totaled \$286,000. It is the Company's policy to stop accruing interest on loans 90 days or more past due and set up reserves for all previously accrued interest. At December 31, 2004, the amount of additional interest income that would have been recognized on nonaccrual loans if such loans had continued to perform in accordance with their contractual terms was approximately \$12,000. At December 31, 2004, 2003 and 2002, there were no impaired loans or troubled debt restructurings.

	AT DECEMBER 31,		
	2004	2003	2002
(DOLLARS IN THOUSANDS)			
Nonaccrual loans:			
Single-family real estate	\$276	\$ 714	\$ 761
Consumer	10	27	20
Total(1)	286	741	781

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Real estate owned (REO)	132	184	-
Other repossessed assets	-	9	2
	----	-----	-----
Total nonperforming assets(2)	\$418	\$ 934	\$ 783
	=====	=====	=====
Nonperforming loans to total loans	.26%	1.28%	1.25%
Nonperforming assets to total assets	.24%	.87%	.71%

- (1) Total nonaccrual loans equal total nonperforming loans.
- (2) Nonperforming assets consist of nonperforming loans, other repossessed assets and REO.

ALLOWANCE FOR LOAN LOSSES. Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values and changes in the composition of the loan portfolio. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk in its loan portfolio. Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require additional provisions for loan losses based upon information available at the time of the review. As of December 31, 2004, the allowance for loan losses totaled .90% of total loans as compared to .71% as of December 31, 2003.

The OTS, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances in accordance with generally accepted accounting principles and guidance for banking agency examiners to use in evaluating the allowances. The policy statement requires that institutions have effective systems and controls to identify, monitor and address asset quality problems; that management has analyzed all significant factors that affect the collectibility of the portfolio in a reasonable manner; and that management has established acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. The Company adopted an Allowance for Loan Losses Policy designed to provide a thorough, disciplined and consistently applied process that

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incorporates management's current judgments about the credit quality of the loan portfolio into determination of the allowance for loan and lease losses in accordance with generally accepted accounting principles and supervisory guidance. Management believes that an adequate allowance for loan losses has been established. However, actual losses are dependent upon future events and, as such, further additions to the level of allowances for estimated loan losses may become necessary.

The following table sets forth activity in the allowance for loan losses for the periods indicated.

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	AT OR FOR THE YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(DOLLARS IN THOUSANDS)		
Allowance for loan losses, beginning of period	\$ 415	\$ 361	\$ 373
Charge-offs:			
Consumer	117	50	35
Total charge-offs	117	50	35
Recoveries on loans previously charged off:			
Consumer	34	2	4
Total recoveries	34	2	4
Net charge-offs	83	48	31
Provision for loan losses	646	102	19
Allowance for loan losses, end of period	\$ 978	\$ 415	\$ 361
Allowance for loan losses to total loans	.90%	.71%	.57%
Allowance for loan losses to nonperforming loans	341.96%	56.01%	46.22%
Net charge-offs to the allowance for losses	8.49%	11.57%	8.59%
Net charge-offs to average loans	.10%	.08%	.05%

The Company's strategy to expand into business financial services and the significant growth in commercial, commercial real estate and multi-family mortgage loans that resulted from that strategy in 2004 required an increase in the provision and allowance for loan losses related to these loan types. The provision for loan losses totaled \$646,000 in 2004, compared to \$102,000 in 2003 and \$19,000 in 2002 (which was prior to implementation of the growth strategy in 2003). At December 31, 2004, the allowance for commercial, commercial real estate and multi-family mortgage loans totaled \$862,000, an increase of \$762,000 from \$100,000 at December 31, 2003 as these loan types grew from 17.8% of the total loan portfolio at year-end 2003 to 48.3% at year-end 2004. 88.4% of the allowance was allocated to these loan types at December 31, 2004, as they tend to be larger balance, higher risk loans than single-family residential mortgages, where the Company has experienced low historical loss rates.

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The following table sets forth the allowance for loan losses in each of the categories listed at the dates indicated and the percentage of such amounts to the total allowance and loans in each category as a percent of total loans. Although the allowance may be allocated to specific loans or loan types, the entire allowance is available for any loan that, in Management's judgment, should be charged-off.

	AT DECEMBER 31,	
	2004	
	% OF ALLOWANCE IN EACH CATEGORY	PERCENT OF LOANS IN EACH CATEGORY

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	AMOUNT	TO TOTAL ALLOWANCE	TO TOTAL LOANS	AMOUNT
	-----	-----	-----	-----
			(DOLLARS IN THOUSANDS)	
Single-family mortgage and construction loans	\$ 4	.41%	38.97%	\$
Consumer loans	112	11.45%	12.77%	
Commercial, commercial real estate and multi-family mortgage loans	862	88.14%	48.26%	
	-----	-----	-----	-----
Total allowance for loan losses	\$ 978	100.00%	100.00%	\$
	=====	=====	=====	=====

	AT DECEMBER 31,		
	2002		
	AMOUNT	% OF ALLOWANCE IN EACH CATEGORY TO TOTAL ALLOWANCE	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	-----	-----	-----
		(DOLLARS IN THOUSANDS)	
Single-family mortgage and construction loans	\$ 296	82.00%	75.06%
Consumer loans	64	17.73%	22.09%
Commercial, commercial real estate and multi-family mortgage loans	1	.27%	2.85%
	-----	-----	-----
Total allowance for loan losses	\$ 361	100.00%	100.00%
	=====	=====	=====

REAL ESTATE OWNED

At December 31, 2004, real estate owned totaled \$132,000 and consisted of 2 single-family residential properties. Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

INVESTMENT ACTIVITIES

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certificates of deposit of insured banks and savings institutions, bankers' acceptances and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Additionally, minimum levels of investments that qualify as liquid assets under OTS regulations must be maintained. Historically, liquid assets above the minimum OTS requirements have been maintained at a level considered to be more than

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adequate to meet its normal daily activities.

The investment policy established by the Board of Directors is designed to provide and maintain liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and complement lending activities. The Company's policies provide the authority to invest in United States Treasury and federal agency securities meeting the Company's guidelines and in mortgage-backed securities guaranteed by the U.S. government and agencies thereof, as well as municipal bonds. To improve liquidity, the Company transferred all securities previously classified as "held to maturity" to "available for sale" in 2003. At December 31, 2004, the securities portfolio totaled \$13.5 million.

At December 31, 2004, all mortgage-backed securities in the securities portfolio were insured or guaranteed by Freddie Mac or Fannie Mae. There were no collateralized mortgage obligations that failed stress testing at December 31, 2004. Management reports high risk mortgage derivatives testing results the Board of Directors each month, at which time the Board may direct management to divest of any such securities failing any portion of the testing, in accordance with regulations.

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The following table sets forth certain information regarding the amortized cost and fair value of securities at the dates indicated.

	AT DECEMBER			
	2004		2003	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Debt securities:				
Debt securities available for sale:				
Federal agency	\$ 5,018	\$ 4,983	\$12,755	\$12,755
State and municipal	-	-	1,370	1,370
Total debt securities available for sale	5,018	4,983	14,125	14,125
Debt securities held to maturity:				
U.S. Government and federal agency	-	-	-	-
Corporate	-	-	-	-
Total debt securities held to maturity	-	-	-	-
Total debt securities	5,018	4,983	14,125	14,125
Mortgage-backed securities:				
Available for sale	8,397	8,525	12,697	12,697
Held to maturity	-	-	-	-
Total mortgage-backed securities	8,397	8,525	12,697	12,697
Net unrealized gains on securities available for sale	93	-	304	-
Total securities	\$13,508	\$13,508	\$27,126	\$27,126

The table below sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of the debt securities available for sale as of December 31, 2004. Yields are stated on a fully taxable equivalent basis.

	AT DECEMBER 31, 2004				
	ONE YEAR OR LESS		MORE THAN ONE YEAR TO FIVE YEARS		MORE THAN FIVE YEARS
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE
	(DOLLARS IN THOUSANDS)				
Federal agency	\$ -		\$ 4,983	3.37%	\$ -
Mortgage-backed	-		496	5.35%	3,197
Total securities at fair value	\$ -		\$ 5,479	3.55%	\$ 3,197

	AT DECEMBER 31, 2004			
	MORE THAN TEN YEARS		TOTAL	
	CARRYING VALUE	WEIGHTED AVERAGE YIELD	CARRYING VALUE	WEIGHTED AVERAGE YIELD
	(DOLLARS IN THOUSANDS)			
Federal agency	\$ -		\$ 4,983	
Mortgage-backed	4,832	4.95%	8,525	
Total securities at fair value	\$ 4,832	4.95%	\$ 13,508	

SOURCES OF FUNDS

GENERAL. Deposits, loan repayments and prepayments, securities maturities and prepayments, borrowings and cash flows generated from operations are the primary sources of funds for use in lending, investing and for other general purposes.

DEPOSITS. The Company offers a variety of deposit accounts with a range of interest rates and terms. The Company's deposits consist of passbook accounts, savings and club accounts, interest-bearing checking accounts, money market accounts and certificates of deposit. For the year ended December 31, 2004, certificates of deposit constituted 46.8% of total average deposits. The term of

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the certificates of deposit offered vary from seven days to five years and the offering rates are established by the Company. Specific terms of an individual account vary according to the type of account, the minimum balance required, the time period funds must remain on deposit and the interest rate, among other factors. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. At December 31, 2004, the Company had \$29.3 million of certificate accounts maturing in less than one year. The Company expects that most of these accounts will be reinvested and does not believe that there are any material risks associated with the respective maturities of these certificates. Deposits are obtained predominantly from the area in which its banking offices are located. The Company does, however, accept brokered deposits. At December 31, 2004, brokered deposits totaled \$6.1 million. The Company relies primarily on a willingness to pay market-competitive interest rates to attract and retain these deposits. Accordingly, rates offered by competing financial institutions affect the Company's ability to attract and retain deposits.

At December 31, 2004, the Company had \$11.3 million in certificate accounts in amounts of \$100,000 or more maturing as follows:

MATURITY PERIOD	AMOUNT	WEIGHTED AVERAGE RATE
-----	-----	-----
	(DOLLARS IN THOUSANDS)	
Three months or less	\$ 3,704	2.47%
Over 3 through 6 months	226	1.82%
Over 6 through 12 months	2,834	2.80%
Over 12 months	4,495	3.67%

Total	\$11,259	=====

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The following table sets forth the distribution of the Company's average deposit accounts for the periods indicated and the weighted average interest rates on each category of deposits presented. Averages for the periods presented are based on month-end balances.

	FOR THE YEAR ENDED DECEMBER 31,					
	2004			2003		
	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	AVERAGE RATE PAID	AVERAGE BALANCE	PERCENT OF TOTAL AVERAGE DEPOSITS	AVERAGE RATE PAID
	-----	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)					
Interest-bearing checking accounts	\$ 11,602	13.82%	.58%	\$ 8,463	11.25%	.86%
Money market accounts	10,688	12.73%	2.34%	7,843	10.43%	1.40%

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Savings accounts	18,730	22.30%	.57%	18,373	24.43%	.82%
Certificates of deposit	39,285	46.78%	2.57%	38,761	51.52%	3.24%
Noninterest-bearing deposits:						
Demand deposits	3,674	4.37%	-	1,781	2.37%	-
	-----	-----		-----	-----	
Total average deposits	\$ 83,979	100.00%	1.79%	\$ 75,221	100.00%	2.14%
	=====	=====		=====	=====	

The following table presents by various rate categories, the amount of certificate accounts outstanding at the dates indicated and the periods to maturity of the certificate accounts outstanding at December 31, 2004.

	PERIOD TO MATURITY FROM DECEMBER 31, 2004				
	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	OVER THREE YEARS	2004
	-----				-----
	(DOLLARS IN THOUSANDS)				
Certificate accounts:					
0 to 3.99%	\$ 28,669	\$ 6,449	\$ 2,686	\$ 1,582	\$ 39,386
4.00 to 4.99%	448	2,930	303	2,592	6,273
5.00 to 5.99%	212	443	-	-	655
6.00 to 6.99%	-	-	-	-	-
7.00 to 7.99%	-	-	-	-	-
8.00% and above	-	-	10	-	10
	-----	-----	-----	-----	-----
Total certificate accounts	\$ 29,329	\$ 9,822	\$ 2,999	\$ 4,174	\$ 46,324
	=====	=====	=====	=====	=====

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BORROWINGS. The Company utilizes FHLB advances as an alternative to retail deposits to fund its operations as part of its operating strategy. These FHLB advances are collateralized primarily by certain mortgage loans, home equity lines of credit, commercial real estate loans and mortgage-backed securities and secondarily by the Company's investment in capital stock of the FHLB. FHLB advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions fluctuates from time to time in accordance with the policies of the FHLB.

The Company had a revolving line of credit with an unaffiliated bank, acquired in the Reserve acquisition, which provides financing primarily for single-family mortgage loan originations and is collateralized by loan sales proceeds receivable.

A trust formed by the Company issued \$5,000 of 3 month LIBOR plus 2.85% floating rate trust preferred securities in 2003 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Company may redeem the subordinated debentures, in whole but not in part, any time after five years at par. The subordinated debentures must be redeemed no later than 2033.

Under accounting guidance, FASB Interpretation No. 46, as revised in December

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2003, the trust is not consolidated with the Company. Accordingly, the Company does not report the securities issued by the trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Company and held by the trust.

The following table sets forth certain information regarding borrowed funds at or for the periods ended on the dates indicated:

	AT OR FOR THE YEAR ENDED DEC	
	2004	2003
	(DOLLARS IN THOUSAND)	
FHLB advances and other borrowings:		
Average balance outstanding	\$ 31,265	\$ 12,192
Maximum amount outstanding at any month-end during the period	48,574	16,542
Balance outstanding at end of period	48,574	12,655
Weighted average interest rate during the period	2.28%	5.59%
Weighted average interest rate at end of period	2.76%	2.28%

SUBSIDIARY ACTIVITIES

As of December 31, 2004, the Company maintained the Bank and Trust as wholly owned subsidiaries. Reserve Mortgage Services, Inc., a wholly owned subsidiary of the Bank was acquired in October 2004.

PERSONNEL

As of December 31, 2004, the Company had 54 full-time and 2 part-time employees.

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REGULATION AND SUPERVISION

GENERAL. As a savings and loan holding company, the Company is required by federal law to report to, and otherwise comply with the rules and regulations of, the Office of Thrift Supervision ("OTS"). The Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), as the deposit insurer. The Bank is a member of the Federal Home Loan Bank System and, with respect to deposit insurance, of the Savings Bank Insurance Fund ("SAIF") managed by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other savings institutions. The OTS and/or the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company and its operations. Certain regulatory requirements applicable to the Company are referred to below or elsewhere

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herein. The description of statutory provisions and regulations applicable to savings institutions and their holding companies set forth in this Form 10-KSB does not purport to be a complete description of such statutes and regulations and their effects on the Bank and the Company.

SARBANES-OXLEY ACT OF 2002. The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) was enacted on July 30, 2002. The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance and financial disclosure. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934, including the Company. The Sarbanes-Oxley Act establishes, among other things: (i) new requirements for audit committees; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer; (iii) new standards for auditors and regulations governing audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violations of the securities laws.

HOLDING COMPANY REGULATION. The Company is a nondiversified unitary savings and loan holding company within the meaning of federal law. Under prior law, a unitary savings and loan holding company, such as the Company, was not generally restricted as to the types of business activities in which it may engage, provided that the Bank continued to be a qualified thrift lender. See "Federal Savings Institution Regulation - QTL Test." The Gramm-Leach-Bliley Act of 1999 provides that no company may acquire control of a savings Bank after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. Further, the Gramm-Leach-Bliley Act specifies that existing savings and loan holding companies may only engage in such activities. The Gramm-Leach-Bliley Act, however, grandfathered the unrestricted authority for activities with respect to unitary savings and loan holding companies existing prior to May 4, 1999, so long as the holding company's savings Bank subsidiary continues to comply with the QTL Test. The Company does qualify for the grandfathering. Upon any non-supervisory acquisition by the Company of another savings institution or savings bank that meets the qualified thrift lender test and is deemed to be a savings institution by the OTS, the Company would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would generally be limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the OTS, and certain activities authorized by OTS regulation. However, the OTS has issued an interpretation concluding that

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multiple savings and loan holding companies may also engage in activities permitted for financial holding companies.

A savings and loan holding company is prohibited from, directly or indirectly, acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company, without prior written approval of the OTS and from acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings institutions, the OTS considers the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the deposit insurance funds, the convenience and needs of the community and competitive factors.

The OTS may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory

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acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Although savings and loan holding companies are not currently subject to specific capital requirements or specific restrictions on the payment of dividends or other capital distributions, federal regulations do prescribe such restrictions on subsidiary savings institutions as described below. The Bank must notify the OTS 30 days before declaring any dividend to the Company. In addition, the financial impact of a holding company on its subsidiary institution is a matter that is evaluated by the OTS and the agency has authority to order cessation of activities or divestiture of subsidiaries deemed to pose a threat to the safety and soundness of the institution.

ACQUISITION OF THE HOLDING COMPANY. Under the Federal Change in Bank Control Act ("CIBCA"), a notice must be submitted to the OTS if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's outstanding voting stock, unless the OTS has found that the acquisition will not result in a change of control of the Company. Under the CIBCA, the OTS has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

FEDERAL SAVINGS INSTITUTION REGULATION

Business Activities. The activities of federal savings banks are governed by federal law and regulations. These laws and regulations delineate the nature and extent of the activities in which federal banks may engage. In particular, certain lending authority for federal banks, e.g., commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

Capital Requirements. The OTS capital regulations require savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest CAMELS rating), and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings institutions requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance-sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier 1) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus, and minority interests in equity accounts of consolidated subsidiaries less intangibles other than certain

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mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At December 31, 2004, the Bank met each of its capital requirements.

The following table presents the Bank's capital position at December 31, 2004:

	ACTUAL CAPITAL -----	REQUIRED CAPITAL -----	EXCESS	CAPITAL	
			(DEFICIENCY) AMOUNT -----	ACTUAL PERCENT -----	REQUIRED PERCENT -----
(DOLLARS IN THOUSANDS)					
Tangible	\$ 13,576	\$ 2,522	\$ 11,054	8.1%	1.5%
Core (Leverage)	13,576	6,726	6,850	8.1%	4.0%
Risk-based	14,555	9,580	4,975	12.2%	8.0%

Prompt Corrective Regulatory Action. The OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings institution that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings institution that has a total risk-based capital ratio less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The OTS could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

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maintains a risk-based assessment system by which institutions are assigned to one of three categories based on their capitalization and one of three subcategories based on examination ratings and other supervisory information. An institution's assessment rate depends upon the categories to which it is assigned. Assessment rates for SAIF member institutions are determined semi-annually by the FDIC and currently range from zero basis points for the healthiest institutions to 27 basis points of assessable deposits for the riskiest.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation ("FICO") to recapitalize the predecessor to the SAIF. During 2003, FICO payments for SAIF members approximated 1.54 basis points of assessable deposits. The Bank's total assessment paid for 2004 (including the FICO assessment) was \$12,167. The FDIC has authority to increase insurance assessments. A significant increase in SAIF insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Company. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. The management of the Company does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the limits on loans to one borrower applicable to national banks. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. At December 31, 2004, the Bank's 15% limit on loans to one borrower was \$2.1 million. At December 31, 2004, the Bank did not have a lending relationship in excess of this limit.

QTL Test. The HOLA requires savings institutions to meet a qualified thrift lender test. Under the test, a savings bank is required to either qualify as a "domestic building and loan bank" under the Internal Revenue Code or maintain at least 65% of its "portfolio assets" (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain "qualified thrift investments" (primarily residential mortgages and related investments, including certain mortgage-backed securities) in at least 9 months out of each 12 month period.

A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. As of December 31, 2004, the Bank maintained 95.06% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments."

Limitation on Capital Distributions. OTS regulations impose limitations upon all capital distributions by a savings institution, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulation, an application to and the prior approval of the OTS is required prior to any capital distribution if the institution does not meet the criteria for "expedited treatment" of applications under OTS regulations (i.e., generally, examination ratings in the two top categories), the total capital distributions for the calendar year

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exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the OTS. If an application is not required, the institution must still provide

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prior notice to the OTS of the capital distribution if, like the Bank, it is a subsidiary of a holding company. In the event the Bank's capital fell below its regulatory requirements or the OTS notified it that it was in need of increased supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Assessments. Savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the Bank's latest quarterly thrift financial report. The assessments paid by the Bank for 2004 totaled \$36,113.

Transactions with Related Parties. The Bank's authority to engage in transactions with "affiliates" (e.g., any company that controls or is under common control with an institution, including the Company and its non-savings institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. The transactions with affiliates must be on terms and under circumstances, that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The recently enacted Sarbanes Oxley Act generally prohibits loans by the Company to its executive officers and directors. However, that act contains a specific exception for loans by the Bank to its executive officer's and directors in compliance with federal banking laws. Under such laws the Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring actions against the institution and all institution-affiliated parties, including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful

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action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or even \$1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. The federal banking agencies have adopted interagency guidelines prescribing standards for safety and soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to

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meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

FEDERAL HOME LOAN BANK SYSTEM

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank in an amount at least equal to 1.0% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its advances (borrowings) from the Federal Home Loan Bank, whichever is greater. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2004 of \$3.8 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, The Company's net interest income would likely also be reduced. Recent legislation has changed the structure of the Federal Home Loan Banks funding obligations for insolvent thrifts, revised the capital structure of the Federal Home Loan Banks and implemented entirely voluntary membership for Federal Home Loan Banks. Management cannot predict the effect that these changes may have with respect to its Federal Home Loan Bank membership.

FEDERAL RESERVE SYSTEM

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including \$47.6 million; a 10% reserve ratio is applied above \$47.6. The first \$7.0 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are

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exempted from the reserve requirements. These amounts are adjusted annually. The Bank complies with the foregoing requirements.

FEDERAL AND STATE TAXATION

FEDERAL TAXATION

General. The Company reports income on a calendar year, consolidated basis using the accrual method of accounting, and is subject to federal income taxation in the same manner as other corporations, with some exceptions discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company. For its 2004 taxable year, the Company is subject to a maximum federal income tax rate of 34%.

Distributions. Under the 1996 Act, if the Bank makes "non-dividend distributions" to the Company, such distributions will be considered to have been made from the Bank's unrecaptured tax bad debt reserves (including the balance of its reserves as of December 31, 1987) to the extent thereof, and then from the Bank's supplemental reserve for losses on loans, to the extent thereof, and an amount based on the amount distributed (but not in excess of the amount of such reserves) will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and

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accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation.

Dividends paid out of the Bank's current or accumulated earnings and profits will not be so included in the Bank's taxable income. At year-end 2004, the Bank had approximately \$922,000 in accumulated earnings and profits.

The amount of additional taxable income triggered by a non-dividend is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a non-dividend distribution to the Company, approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. The Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

OHIO TAXATION

The Company is subject to the Ohio corporation franchise tax, which, as applied to the Company, is a tax measured by both net earnings and net worth. In general, the tax liability is the greater of 5.1% on the first \$50,000 of computed Ohio taxable income and 8.5% of computed Ohio taxable income in excess of \$50,000 or 0.4% times of taxable net worth. Under these alternative measures of computing tax liability, complex formulas determine the jurisdictions to which total net income and total net worth are apportioned or allocated. The minimum tax is \$1,000 per year and maximum tax liability as measured by net worth is limited to \$150,000 per year.

A special litter tax also applies to all corporations, including the Company, subject to the Ohio Corporation franchise tax. This litter tax does not apply to "financial institutions." If the franchise tax is paid on the net income basis, the litter tax is equal to 0.11% of the first \$50,000 of computed Ohio taxable income and 0.22% of computed Ohio taxable income in excess of \$50,000. If the

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franchise tax is paid on the net worth basis, the litter tax is equal to 0.014% times taxable net worth.

Certain holding companies, such as the Company, will qualify for complete exemption from the net worth tax if certain conditions are met. The Company will most likely meet these conditions, and thus, calculate its Ohio franchise tax on the net income basis.

The Bank is a "financial institution" for State of Ohio tax purposes. As such, it is subject to the Ohio corporate franchise tax on "financial institutions," which is imposed annually at a rate of 1.3% of the Bank's apportioned book net worth, determined in accordance with generally accepted accounting principles, less any statutory deduction. As a "financial institution," the Bank is not subject to any tax based upon net income or net profits imposed by the State of Ohio.

DELAWARE TAXATION

As a Delaware holding company not earning income in Delaware, the Company is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

AVAILABLE INFORMATION

The Company's website address is www.CFBankonline.com. The Company makes available free of charge through its website its annual report on Form 10-KSB, its quarterly reports on Form 10-QSB, its current reports on Form 8-K and any amendments to these reports as soon as reasonably practicable after it electronically files such reports with the Securities and Exchange Commission. These reports can be found on the Company's website under the caption "CF News and Links - Investor Relations - SEC

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Filings." Investors also can obtain copies of the Company's filings from the Securities and Exchange Commission's website at www.sec.gov.

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ITEM 2 DESCRIPTION OF PROPERTY

The Company conducts its business through five offices located in Summit, Columbiana, Jefferson and Franklin Counties, Ohio.

LOCATION	LEASED OR OWNED	ORIGINAL YEAR LEASED OR ACQUIRED	DATE OF LEASE EXPIRATION	NET BOOK VALUE OF PROPERTY OR LEASEHOLD IMPROVEMENTS AT DECEMBER 31, 2004
				(DOLLARS IN THOUSANDS)
OFFICES:				
2923 Smith Rd Fairlawn, Ohio 44333	Leased	2004	2014	\$ 259
601 Main Street	Owned	1989	-	751

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Wellsville, Ohio 43968

49028 Foulks Drive East Liverpool, Ohio 43920	Owned	1979	-	327
4249 Easton Way, Suite 125 Columbus, Ohio 43219	Leased	2003	2009	15
RESERVE MORTGAGE SERVICES 1730 Akron-Peninsula Rd Akron, Ohio 44313	Leased	2004	2009	44

ITEM 3 LEGAL PROCEEDINGS

The Company may, from time to time, be involved in various legal proceedings in the normal course of business. Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Company's business. The Company is not a party to any pending legal proceedings that the Company believes would have a material adverse effect on its financial condition or operations, if decided adversely to the Company.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held a special meeting of stockholders on March 14, 2005 to approve an amendment to the Company's Certificate of Incorporation to effect a one-for-325 reverse stock split of the Company's common stock, thereby permitting the Company to apply to the Securities and Exchange Commission to terminate the registration of its common stock pursuant to Section 12(g)(4) of the Securities Exchange Act of 1934. Results of shareholder voting were as follows:

For:	1,158,219
Against:	123,013
Abstain:	2,550

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Although the measure was approved by stockholders, the Board of Directors abandoned the transaction on March 17, 2004 in the interest of the Company and its shareholders, as the capital cost of the transaction was in excess of the \$2 million ceiling which the board had set as the cost for going private. A press release announcing the abandonment of the transaction was issued on March 18, 2004, and the Company filed an amended Schedule 13E-3 with the Commission on March 22, 2004 to report the abandonment.

PART II

ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The market information required by Item 201(a), the stockholders information required by Item 201(b) and the dividend information required by Item 201(c) of Regulation S-B is incorporated by reference to the Company's 2004 Annual Report to shareholders distributed to shareholders and furnished to the Commission

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under Rule 14a-3(b) of the Exchange Act; the information appears under the caption "Market Prices and Dividends Declared" on page 16 and in "Note 17 - Capital Requirements and Restrictions on Retained Earnings" at page 37 therein, respectively.

The equity compensation plan information required by Item 201(d) of Regulation S-B is set forth herein under Part III, Item 11, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 701 of Regulation S-B with respect to the Company's sales of unregistered securities during fiscal 2004 has been reported previously in filings made with the Commission. The information required by Item 703 of Regulation S-B is as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
-----	-----	-----	-----	-----
October 1 - 31, 2004	-	-	-	-
November 1 - 30, 2004	-	-	-	-
December 1 - 31, 2004	15,000 (1)	\$ 12.57	-	-

(1) shares purchased in an open market transaction.

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ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Information required by Item 303 of Regulation S-B is incorporated by reference to the Company's 2004 Annual Report to shareholders distributed to shareholders and furnished to the Commission under Rule 14a-3(b) of the Exchange Act; the information appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" at page 4 therein.

ITEM 7 FINANCIAL STATEMENTS

The consolidated financial statements required by Item 310(a) of Regulation S-B are incorporated by reference to the Company's 2004 Annual Report to shareholders distributed to shareholders and furnished to the Commission under Rules 14a-3(b) and (c) of the Exchange Act; the financial statements appear under the caption "Financial Statements" at page 17 therein and include the following:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets

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Consolidated Statements of Operations
Consolidated Statements of Comprehensive Income (Loss)
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the completion of the evaluation of those controls by the Chief Executive Officer and Chief Financial Officer.

ITEM 8B OTHER INFORMATION

None.

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PART III

ITEM 9 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors. Information required by Item 401 of Regulation S-B with respect to the Company's directors and committees of the Board of Directors is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "PROPOSAL 1. ELECTION OF DIRECTORS."

Executive Officers of the Registrant

AGE AT
DECEMBER 31,

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NAME	2004	POSITION HELD WITH THE COMPANY AND/OR SUBSIDIARIES
David C. Vernon (1)	64	Chairman, President and Chief Executive Officer, Company; Chairman and Chief Executive Officer, Bank
Mark S. Allio (2)	50	Vice Chairman, President and Chief Executive Officer, Company; Vice Chairman and Chief Executive Officer, Bank
Raymond E. Heh	62	President and Chief Operating Officer, Bank
R. Parker MacDonell	50	Regional President - Columbus, Bank
Richard J. O'Donnell	55	President and Chief Executive Officer, Reserve Mortgage Services, Inc.
Eloise L. Mackus	54	Senior Vice President, General Counsel and Secretary, Company and Bank
Therese A. Liutkus	45	Treasurer and Chief Financial Officer, Company and Bank

(1) Mr. Vernon held these positions thru January 31, 2005, after which time he retained the title of Chairman of the Board of Directors.

(2) Mr. Allio was appointed to these positions effective February 1, 2005

David C. Vernon is Chairman of the Board of the Company and Bank. He served as President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank until January 31, 2005. Prior to assuming those positions with the Company and Bank in 2003, he was Chairman and CEO of Founders Capital Corporation. Prior to forming Founders Capital Corporation, Mr. Vernon was Chairman, President and CEO of Summit Bancorp and Summit Bank in Akron, Ohio.

Mark S. Allio was appointed Vice Chairman, President and Chief Executive Officer of the Company and Vice Chairman and Chief Executive Officer of the Bank on February 1, 2005. Mr. Allio was President and Chief Executive Officer of Rock Bank (in formation) in Livonia, Michigan from April 2003 to December 2004, President of Third Federal Savings, MHC in Cleveland, Ohio from January 2000 to

December 2002, Chief Financial Officer of Third Federal from 1988 through 1999, and has worked in banking for more than 17 years.

Raymond E. Heh, President and Chief Operating Officer, joined the Bank in June 2003. Formerly, Mr. Heh held numerous positions at Bank One Akron NA including Chairman, President and CEO. He was with Bank One Akron NA for 18 years and has 40 years of experience in the commercial banking industry. Mr. Heh is a graduate of The Pennsylvania State University.

R. Parker MacDonell is Regional President - Columbus and joined the Bank in May 2003. Mr. MacDonell is a third generation Ohio banker with 18 years of commercial banking experience. He is a former Senior Vice President of Bank One Columbus NA, a position he held for three years during his 15 year tenure with Bank One. He is a graduate of Dartmouth College and received his master's degree from Yale University.

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Richard J. O'Donnell has been President and Chief Executive Officer, Reserve Mortgage Services, Inc. (formerly RJO Financial Services, Inc.), 1730 Akron-Peninsula Road, Akron, Ohio 44313, since 1995. Reserve Mortgage Services, Inc. was acquired by the Company in October 2004.

Eloise L. Mackus is Senior Vice President, General Counsel and Secretary of the Company and Bank. Prior to joining the Company and Bank in July 2003, Ms. Mackus practiced in law firms in Connecticut and Ohio and was the Vice President and General Manager of International Markets for The J. M. Smucker Company. Ms. Mackus completed a BA at Calvin College and a JD at The University of Akron School of Law.

Therese A. Liutkus joined the Company and Bank as Chief Financial Officer in November 2003. Prior to that time, Ms. Liutkus was Chief Financial Officer of First Place Financial Corp. and First Place Bank for five years and she has 18 years of banking experience. Ms. Liutkus is a certified public accountant and has a Bachelor's degree in accounting from Cleveland State University.

Compliance with Section 16(a) of the Exchange Act. Information required by Item 405 of Regulation S-B is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "ADDITIONAL INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS - Compliance with Section 16(a) of the Exchange Act." Copies of Section 16 reports, Forms 3, 4 and 5, are available on the Company's website, www.CFBankonline.com under the caption "CF News and Links - Investor Relations - Section 16 Filings."

Code of Ethics. The Company has adopted a code of ethics, its Financial Code of Ethics, which meets the requirements of Item 406 of Regulation S-B and applies to the Company's principal executive officer, principal financial officer and principal accounting officer. Since the Company's inception in 1998, it has had a Code of Business Conduct and Ethics (Code of Conduct). The Company requires all directors, officers and other employees to adhere to the Code of Conduct in addressing the legal and ethical issues encountered in conducting their work. The Code of Conduct requires that the Company's employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's best interest. The Company's Financial Code of Ethics and Code of Conduct are available on the Company's website, www.CFBankonline.com under the caption "CF News and Links - Investor Relations - Corporate Governance."

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ITEM 10 EXECUTIVE COMPENSATION

Information required by Item 402 of Regulation S-B is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "EXECUTIVE COMPENSATION."

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners and Management. Information required by Item 403 of Regulation S-B is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "STOCK OWNERSHIP."

Related Stockholder Matters. Information required by Item 201(d) of Regulation S-B is incorporated by reference to the Company's definitive Proxy Statement for

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its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "PROPOSAL 2: SECOND AMENDED AND RESTATED CENTRAL FEDERAL CORPORATION 2003 EQUITY COMPENSATION PLAN - EQUITY COMPENSATION PLAN INFORMATION."

See Part II, Item 7, Financial Statements, Notes 12 and 16, for a description of the principal provisions of the Company's equity compensation plans. The information required by Item 7 is incorporated by reference to the Company's 2004 Annual Report to shareholders distributed to shareholders and furnished to the Commission under Rules 14a-3(b) and (c) of the Exchange Act; the financial statements appear under the caption "Financial Statements" at page 17 therein.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 404 of Regulation S-B is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "ADDITIONAL INFORMATION ABOUT DIRECTORS AND OFFICERS - Certain Relationships and Related Transactions."

ITEM 13 EXHIBITS

See Exhibit Index at page 35 of this report on Form 10-KSB.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by Item 9(e) of Schedule 14A pursuant to this Item 14 is incorporated by reference to the Company's definitive Proxy Statement for its 2005 Annual Meeting of Stockholders filed with the Commission on March 30, 2005, under the caption "PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS."

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL FEDERAL CORPORATION

/s/ Mark S. Allio

Mark S. Allio
Vice Chairman, President and Chief Executive Officer

Date: March 30, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
----- /s/ Mark S. Allio ----- Mark S. Allio	Vice Chairman of the Board, President and Chief Executive Officer	March 30, 2005

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(principal executive officer)

/s/ Therese Ann Liutkus ----- Therese Ann Liutkus, CPA (principal accounting and financial officer)	Treasurer and Chief Financial Officer	March 30, 2005
/s/ David C. Vernon ----- David C. Vernon	Chairman of the Board	March 30, 2005
/s/ Jeffrey W. Aldrich ----- Jeffrey W. Aldrich	Director	March 30, 2005
/s/ Thomas P. Ash ----- Thomas P. Ash	Director	March 30, 2005
/s/ William R. Downing ----- William R. Downing	Director	March 30, 2005
/s/ Gerry W. Grace ----- Gerry W. Grace	Director	March 30, 2005
/s/ Jerry F. Whitmer ----- Jerry F. Whitmer	Director	March 30, 2005

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
-----	-----
3.1	Certificate of Incorporation of Central Federal Corporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 No. 333-64089 filed with the Commission on September 23, 1998)
3.2	Bylaws of Central Federal Corporation (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 No. 333-64089 filed with the Commission on September 23, 1998)
4.1	Form of Stock Certificate of Central Federal Corporation (incorporated by reference to Exhibit 4.0 to the Company's Registration Statement on Form SB-2 No. 333-64089 filed with the Commission on September 23, 1998)
10.1*	Salary Continuation Agreement between CFBank and David C. Vernon
10.2*	Employment Agreement between CFBank and Richard J. O'Donnell
10.3*	Amendment to Employment Agreement between Central Federal Corporation and David C. Vernon

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- 10.4* Amendment to Employment Agreement between CFBank and David C. Vernon
- 10.5* Second Amendment to Employment Agreement between Central Federal Corporation and David C. Vernon
- 10.6* Second Amendment to Employment Agreement between CFBank and David C. Vernon
- 11.1 Statement Re: Computation of Per Share Earnings
- 13.1 Annual Report to Security Holders for the Fiscal Year Ended December 31, 2004
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14(a) Certifications of the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certifications of the Chief Financial Officer
- 32.1 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer

*Management contract or compensation plan or arrangement identified pursuant to Item 13(a) of Form 10-KSB