CENTRAL FEDERAL CORP
Form 10QSB
November 12, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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
(Exact name of small business issuer as specified in its charter)

Delaware	34-1877137
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices)

(330) 666-7979
(Issuer's telephone number)

601 Main Street, Wellsville, Ohio 43968
(Former name, former address and former fiscal year, if changed since last report)

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 [X] No[ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class:	Outstanding at October 29, 2004
Common stock, $0.01 par value	2,189,215 shares

Transitional Small Business Disclosure Format (check one)	Yes[ ]	No[X]

CENTRAL FEDERAL CORPORATION
FORM 10-QSB

QUARTER ENDED SEPTEMBER 30, 2004
INDEX

CENTRAL FEDERAL CORPORATION
PART I. Financial Information
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)

	September 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 25,121	$ 8,936
Interest-bearing deposits in other financial institutions	298	1,587
Securities available for sale	13,234	27,126
Loans held for sale	104	106
Loans, net of allowance of $747 and $415	96,800	58,024
Federal Home Loan Bank stock	3,738	3,626
Loan servicing rights	212	221

Foreclosed assets, net	673	193
Premises and equipment, net	2,686	1,932
Bank owned life insurance	3,366	3,256
Accrued interest receivable	433	487
Other assets	1,794	1,517
	$ 148,459	$ 107,011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 3,731	$ 2,457
Interest bearing	86,624	70,901
Total deposits	90,355	73,358
Federal Home Loan Bank advances	33,670	7,500
Advances by borrowers for taxes and insurance	201	207
Accrued interest payable and other liabilities	683	935
Subordinated debentures	5,155	5,155
Total liabilities	130,064	87,155
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value; 6,000,000 shares authorized; 2004 - 2,294,520 shares issued, 2003 - 2,280,020 shares issued	23	23
Additional paid-in capital	12,119	11,845
Retained earnings	9,161	10,997
Accumulated other comprehensive income	128	201
Unearned stock based incentive plan shares	(425)	(357)
Treasury stock, at cost (2004 - 232,382 shares, 2003 - 255,648 shares)	(2,611)	(2,853)
Total shareholders' equity	18,395	19,856
	$ 148,459	$ 107,011

See accompanying notes to consolidated financial statements.

3.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)
(Unaudited)

	Three months ended September 30,		Ni
	2004	2003	200
Interest and dividend income			
Loans, including fees	$ 1,287	$ 1,101	$ 3,
Taxable securities	181	252	
Tax exempt securities	-	-	
Federal Home Loan Bank stock dividends	40	36	
Overnight funds and other	109	36	

	1,617	1,425	4,
Interest expense			
Deposits	360	456	
Federal Home Loan Bank advances and other debt	146	156	
Subordinated debentures	58	-	
	564	612	1,
Net interest income	1,053	813	2,
Provision for loan losses	296	-	
Net interest income after provision for loan losses	757	813	2,
Noninterest income			
Service charges on deposit accounts	36	41	
Net gains on sales of loans	19	139	
Loan servicing fees, net	(6)	(2)	
Net gains (losses) on sales of securities	(36)	1	(
Earnings on bank owned life insurance	36	49	
Other	7	6	
	56	234	
Noninterest expense			
Salaries and employee benefits	977	615	2,
Occupancy and equipment	84	77	
Data processing	105	64	
Franchise taxes	55	62	
Professional fees	90	101	
Director fees	47	34	
Postage, printing and supplies	89	50	
Advertising and promotion	22	5	
Telephone	20	21	
Loan expenses	8	28	
Foreclosed assets, net	12	(3)	
Depreciation	98	34	
Other	226	41	
	1,833	1,129	4,
Loss before income taxes	(1,020)	(82)	(1,
Income tax benefit	(355)	(48)	(
Net loss	$ (665)	$ (34)	$(1,
Loss per share:			
Basic	($0.33)	($0.02)	($0
Diluted	($0.33)	($0.02)	($0

See accompanying notes to consolidated financial statements.

4.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share data)
(Unaudited)

Accumulated

	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income	Unearne Based I Plan
Balance at January 1, 2004	$ 23	$ 11,845	$ 10,997	$ 201	$
Comprehensive income:					
Net loss			(1,217)		
Other comprehensive loss				(73)	
Total comprehensive loss					
Issuance of stock based incentive plan shares (23,027 shares)		237			
Release of 15,596 stock based incentive plan shares					
Stock options exercised (33,266 shares)			(67)		
Tax benefits from stock options exercised		37			
Purchase of 10,000 shares of treasury stock					
Cash dividends declared ($.27 per share)			(552)		
Balance at September 30, 2004	$ 23	$ 12,119	$ 9,161	$ 128	$

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)
(Unaudited)

	Three months ended September 30, 2004	2003	N
Net loss	$ (665)	$ (34)	$
Change in net unrealized gain (loss) on securities available for sale	396	(123)	
Less: Reclassification adjustment for gains and (losses) later recognized in net income	(36)	1	
Net unrealized gains and (losses)	432	(124)	
Unrealized gain on securities transferred from held to maturity to available for sale	-	-	
Tax effect	(147)	42	
Other comprehensive income (loss)	285	(82)	

Comprehensive loss	$ (380)	$ (116)	$

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine months ended Septem	
	2004	
Cash flows from operating activities	$ (929)	$
Cash flows from investing activities		
Net decrease in interest bearing deposits	1,289	
Available-for-sale securities:		
Sales	15,191	
Maturities, prepayments and calls	4,503	
Purchases	(6,076)	
Held-to-maturity securities:		
Maturities, prepayments and calls	-	
Loan originations and payments, net	(34,262)	
Loans purchased	(5,390)	
Additions to premises and equipment	(1,007)	
Cash received in repayment of ESOP loan	-	
Proceeds from sale of foreclosed assets	74	
Other	5	
Net cash from investing activities	(25,673)	
Cash flows from financing activities		
Net change in deposits	16,997	
Proceeds from Federal Home Loan Bank advances and other debt	28,120	
Repayments on Federal Home Loan Bank advances and other debt	(1,950)	
Net change in advances by borrowers for taxes and insurance	(6)	
Cash dividends paid	(549)	
Proceeds from private placement	-	
Proceeds from exercise of stock options	306	
Repurchase of common stock	(131)	
Net cash from financing activities	42,787	
Net change in cash and cash equivalents	16,185	
Beginning cash and cash equivalents	8,936	
Ending cash and cash equivalents	$ 25,121	$

Supplemental cash flow information:

Interest paid	$ 1,407	$
Income taxes paid	-	
Supplemental noncash disclosures:		
Transfer of securities from held to maturity to available for sale	$ -	$
Transfers from loans to repossessed assets	728	

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC") and in compliance with accounting principles generally accepted in the United States of America. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted.

In the opinion of the management of Central Federal Corporation (the "Company"), the accompanying consolidated financial statements as of September 30, 2004 and December 31, 2003 and for the three and nine months ended September 30, 2004 and 2003 include all adjustments necessary for a fair presentation of the financial condition and the results of operations for those periods. The financial performance reported for the Company for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company's Annual Report to Shareholders and Form 10-KSB for the period ended December 31, 2003. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company's 2003 Annual Report that was filed as Exhibit 13 to the Form 10-KSB. The Company has consistently followed those policies in preparing this Form 10-QSB.

Earnings Per Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Stock based incentive plan shares are considered outstanding as they are earned over the vesting period. Diluted earnings per common share include the dilutive effect of stock based incentive plan shares and additional potential common shares issuable under stock options.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The factors used in the earnings per share computation follow.

(Dollars in thousands except per share data)

	Three months ended September 30, 2004	2003	Nine mo 2004
Basic			
Net loss	$ (665)	$ (34)	$ (1,
Weighted average common shares outstanding	2,017,645	1,977,276	2,001,
Basic loss per common share	$ (0.33)	$ (0.02)	$ (0
Diluted			
Net loss	$ (665)	$ (34)	$ (1,
Weighted average common shares outstanding for basic loss per share	2,017,645	1,977,276	2,001,
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares	-	-	
Average shares and dilutive potential common shares	2,017,645	1,977,276	2,001,
Diluted loss per common share	$ (0.33)	$ (0.02)	$ (0

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per share because the Company had a loss from continuing operations, the exercise price of the options was greater than the average stock price for the periods or the fair value of the stock based incentive plan shares at the date of grant was greater than the average stock price for the periods.

	Three months ended September 30, 2004	2003	Nine months ende 2004
Stock options	259,504	245,232	254,395
Stock based incentive plan shares	34,524	33,683	34,549

In prior periods, the Company had included stock options and stock based incentive plan shares that increased the number of outstanding shares in computing diluted earnings (loss) per share. However, because the Company had a loss from continuing operations, these potential common shares were anti-dilutive and should not have been considered for the computation. As a result, the Company has revised prior period diluted loss per share amounts. The impact of this change was not material to the diluted loss per share amounts disclosed.

Stock Compensation:

Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation.

(Dollars in thousands except per share data)

	Three months ended September 30, 2004	2003	Nine mo 2004
Net loss as reported	$ (665)	$ (34)	$ (1,
Deduct: Stock-based compensation expense determined under fair value based method	37	45	
Pro forma net loss	$ (702)	$ (79)	$ (1,
Basic loss per share as reported	$ (0.33)	$ (0.02)	$ (0
Pro forma basic loss per share	(0.35)	(0.04)	(0
Diluted loss per share as reported	$ (0.33)	$ (0.02)	$ (0
Pro forma diluted loss per share	(0.35)	(0.04)	(0

The pro forma effects are computed using option pricing models, using the following weighted- average assumptions as of grant date.

	Three and nine months ended September 30, 2004
Risk-free interest rate	3.26%
Expected option life	6.00 years
Expected stock price volatility	41%
Dividend yield	2.86%

Reclassifications:

Some items in the prior year period financial statements were reclassified to conform to the current presentation.

NOTE 2 - SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
September 30, 2004			
Federal agency	$ 4,019	$ 5	$ -
Mortgage-backed	9,215	241	(51)
Total	$ 13,234	$ 246	$ (51)
December 31, 2003			
Federal agency	$ 12,759	$ 8	$ (4)
State and municipal	1,375	5	-
Mortgage-backed	12,992	400	(105)
Total	$ 27,126	$ 413	$ (109)

Sales of available for sale securities were as follows:

	Three months ended September 30, 2004	2003	Nine months ended September 30, 2004	2003
Proceeds	$ 11,239	$ 1,067	$ 15,191	$ 1,067
Gross gains	-	1	42	1
Gross losses	(36)	-	(97)	-

The fair value of debt securities at September 30, 2004 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available for Sale Fair Value
Due in one year or less	$ -
Due from one to five years	4,019
Due from five to ten years	-
Due after ten years	-
Mortgage-backed	9,215
Total	$ 13,234

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SECURITIES (CONTINUED)

At September 30, 2004 and December 31, 2003, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at September 30, 2004 not recognized in income are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unreali Loss
Federal agency	$ -	$ -	$ -	$ -	$ -	$
Mortgage-backed	909	5	2,614	46	3,523	
Total temporarily impaired	$ 909	$ 5	$ 2,614	$ 46	$ 3,523	$

Unrealized losses on the above securities have not been recognized in income because the issuers of the bonds are all federal agencies and the decline in fair value is temporary and largely due to changes in market interest rates. The fair value is expected to recover as the bonds approach their maturity date and/or market rates decline.

NOTE 3 - LOANS

Loans were as follows:

	September 30, 2004	December 31, 2003
Commercial	$ 6,106	$ 4,116
Real estate:		
Residential	42,759	36,060
Commercial	34,104	5,040
Construction	1,127	610
Consumer	13,542	12,598
Subtotal	97,638	58,424
Less: Net deferred loan fees (costs)	91	(15)
Allowance for loan losses	747	415
Loans, net	$ 96,800	$ 58,024

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows.

	September 30, 2004	December 31, 2003
Maturity October 2004 at 1.88% fixed rate	$ 21,400	$ -
Maturity January 2004 at 1.09% floating rate	-	7,500
Maturities March 2005 thru September 2008, at fixed rates from 1.50% to 3.41%, averaging 2.70%	12,270	-
Total	$ 33,670	$ 7,500

Fixed rate advances are payable at their maturity date, with a prepayment penalty. Floating rate advances can be prepaid at any time with no penalty. The advances were collateralized by $40,401 of first and second mortgage loans under a blanket lien arrangement, $11,065 of multifamily mortgages, $9,608 of nonresidential mortgages, $2,609 of home equity lines of credit and $799 of securities at September 30, 2004. The advances were collateralized by $34,795 of first mortgage loans under a blanket lien arrangement and $1,296 of securities at December 31, 2003.

Required payments on all debt over the next five years are:

September 30, 2005	$ 23,400
September 30, 2006	4,000
September 30, 2007	4,270
September 30, 2008	2,000

NOTE 5 - BUSINESS COMBINATION

On October 22, 2004, the Company acquired 100% of the outstanding common stock of RJO Financial Services, Inc., doing business as Reserve Mortgage Services (Reserve), an Akron, Ohio based company licensed as a mortgage banker in Ohio, Florida and Georgia. Reserve's name changed to Reserve Mortgage Services, Inc. and it became an operating subsidiary of the Company's wholly owned subsidiary, CFBank (the "Bank") on the date of the acquisition. The acquisition of Reserve is expected to significantly expand the Company's mortgage services and increase the Company's mortgage loan production. The acquisition was accounted for as a purchase and the results of operations of Reserve will be included in the consolidated financial statements beginning with the date of acquisition.

The aggregate purchase price was $2.2 million, including $340,000 in cash and 127,077 shares of Central Federal Corporation Common Stock valued at approximately $1.8 million based on the $14.06 average closing price of Central Federal Corporation Common Stock during the week before and after the terms of the acquisition were agreed to and announced on June 10, 2004.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	At October 22, 2004
Cash	$ 189
Loan sales proceeds receivable	1,299
Loans receivable	54
Premises and equipment	88
Other assets	3
Intangible assets	320
Goodwill	1,716
Total assets acquired	3,669
Loans payable	1,232
Other liabilities	259
Total liabilities assumed	1,491
Net assets acquired	$ 2,178

The acquired intangible assets have a weighted average useful life of approximately 3 years and include a noncompete agreement for $25,000 with a useful life of one year and prior owner intangible of $295,000 with a useful life of 3 years. Goodwill of $1.7 million is not expected to be deductible for tax purposes.

NOTE 6 - REVERSE STOCK SPLIT

On October 22, 2004, the Company announced that the Board had unanimously approved a 1-to-1000 reverse stock split of the Company's common stock as part of a "going private" transaction. At a special meeting of shareholders to be held in the coming weeks, shareholders will be asked to approve the reverse stock split by authorizing an amendment to the Company's Certificate of Incorporation. The record date will be announced at a later time. If the amendment receives shareholder approval, the Board intends to effect the reverse split immediately thereafter.

As a result of the reverse split, the Company expects to have fewer than 300 record holders of its common stock, permitting the Company to terminate the registration of its common stock with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company intends to apply for such termination as soon as practicable after effecting the split, and thereafter its common stock no longer will be quoted on Nasdaq.

The Board carefully considered this course of action and concluded that it was in the best interest of the Company and its shareholders. A public company generally enjoys investment liquidity for shareholders, easier access to capital, the option to use company stock as capital in an acquisition and an enhanced corporate image. While these benefits often justify the additional accounting, legal and other costs of being a public company, their availability depends upon active trading of the company's stock and a market price that provides some certainty in valuing the company. However, the Company's stock does not actively trade, and thus few, if any, of the benefits of being a public company are available to the Company. Recent legislation, most notably the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and regulations adopted by the SEC and Nasdaq in furtherance of the purposes of Sarbanes-

14.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Oxley, have greatly increased the compliance costs of being a public company, both with respect to substantially higher legal and accounting costs and the significantly greater amount of time the Company's executives must devote to regulatory matters. As a private company, the Company will not have to implement the requirements of Sarbanes-Oxley, file reports with the SEC or comply with the corporate governance rules and onerous disclosure requirements of the SEC and Nasdaq. Thus, the Company's legal, accounting and other costs will be much lower, and management can focus on long-term goals and values rather than on each quarter's financial results and the attendant market reaction. The savings realized by the Company will be invested in the business. The Board believes that shareholder value will be increased as management is allowed to focus its attention and resources on implementing the Company's business plan and long-term strategy.

15.

CENTRAL FEDERAL CORPORATION
Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following analysis discusses changes in financial condition and results of operations of the Company and the Bank during the periods included in the Consolidated Financial Statements which are part of this filing.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB, or in future filings with the SEC, 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.

GENERAL

The Company's results of operations are dependent primarily on net interest income, which is the difference ("spread") between the interest income earned on its loans and securities and its cost of funds, consisting of interest paid on its deposits and borrowed funds. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. The Company's net income is also affected by, among other things, loan fee income, provisions for loan losses, service charges, operating expenses and franchise and income taxes. The Company's revenues are derived primarily from interest on mortgage loans, consumer loans, commercial loans and securities, as well as income from service charges and loan sales. The Company's operating expenses principally consist of interest expense, employee compensation and benefits, occupancy and other general and administrative expenses. The Company's results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may also materially impact the Company.

MANAGEMENT STRATEGY

The Company implemented significant changes in 2003 to utilize its strong capital position to take advantage of opportunities for expansion into business financial services and position itself for growth in the Fairlawn and Columbus, Ohio markets. During the first nine months of 2004, the Company continued to execute the plan for growth.

Commercial and commercial real estate loan balances increased 339% during the first nine months of 2004 and totaled $40.2 million at September 30, 2004, as the Company continued its focus on commercial lending. The Fairlawn office moved from its temporary location and opened for business in a newly constructed office building in April 2004, the Bank began using its new name, CFBank. On October 22, 2004, the Company completed its acquisition of Reserve. The acquisition of Reserve will enable the Company to significantly expand mortgage services and is expected to be immediately accretive to earnings.

The Company continued to sell current originations of long-term fixed-rate mortgages during the first nine months of 2004, rather than subject the Company to the interest rate risk associated with rising interest rates when such loans are held in portfolio. Growth in the commercial loan portfolio was primarily funded through growth in deposits and the Company's existing liquidity. The Company also borrowed $12.3 million from the Federal Home Loan Bank

using fixed rate advances with maturities from March 2005 through September 2008 in order to protect the Company from increased funding costs associated with rising interest rates.

Profitability in the first nine months of 2004 and near-term profitability is expected to continue to be impacted by the operating costs associated with offices in Fairlawn and Columbus, improvements in technology, staffing costs associated with the expansion and provision for loan losses as a result of commercial loan growth. Additionally, profitability during the quarter ended September 30, 2004 was negatively impacted by approximately $320,000 in expenses related to employee severance, post-retirement life insurance benefits associated with bank owned life insurance, one time charges recognized in connection with the servicing of loans and one time internal operating account write-offs.

The Company's profitability has also been negatively impacted by a rise in mortgage interest rates, which has caused consumer refinancing to slow, reducing the Bank's volume of loan originations, sales and resultant gains. The acquisition of 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, a portion of the loans may be retained for portfolio within the Company's interest rate risk and profitability guidelines.

The Company is not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on liquidity, capital resources or operations. The Company is not aware of any current recommendations by its regulators which would have a material effect if implemented.

FINANCIAL CONDITION

General. Assets totaled $148.5 million at September 30, 2004, an increase of $41.5 million or 38.7% from $107.0 million at December 31, 2003 primarily due to growth in the commercial and commercial real estate loan portfolio.

Cash and cash equivalents. Cash and cash equivalents totaled $25.1 million at September 30, 2004, an increase of $16.2 million or 181.1% from $8.9 million at December 31, 2003 primarily due to cash flows from securities sales, maturities and repayments and proceeds from borrowings retained in liquid accounts to be readily available to fund commercial loans.

Securities. Securities available for sale totaled $13.2 million at September 30, 2004, a decrease $13.9 million or 51.2% from $27.1 million at December 31, 2003 primarily due to securities sales, maturities and repayments retained in liquid accounts to be readily available to fund commercial loans, as discussed above.

Loans. Loans totaled $96.8 million at September 30, 2004, an increase of $38.8 million or 66.8% from $58.0 million at December 31, 2003 primarily due to growth in commercial and commercial real estate loan balances, which increased $31.0 million during the nine month period and totaled $40.2 million at September 30, 2004 compared to $9.2 million at December 31, 2003. Mortgage loan balances increased $7.2 million or 19.7% during the nine month period and totaled $43.9 million at September 30, 2004 compared to $36.7 million at December 31, 2003 due to originations and purchases of adjustable rate mortgage loans.

Deposits. Deposits totaled $90.4 million at September 30, 2004, an increase of $17.0 million or 23.2% from $73.4 million at December 31, 2003. The increase was due to growth of $10.7 million in money market accounts, $5.0 million in certificate of deposit accounts and $1.9 million in checking accounts, primarily commercial checking accounts offset by a $540,000 decline in savings accounts. The growth in deposits is primarily the result of the Company's focus on commercial customer relationships.

Federal Home Loan Bank advances. Federal Home Loan Bank ("FHLB") advances totaled $33.7 million at September 30, 2004, an increase of $26.2 million from

$7.5 million at December 31, 2003 primarily due to the use of advances to fund commercial loan growth and increase liquidity in anticipation of future loan growth.

Shareholders' equity. Total shareholders' equity declined $1.5 million or 7.4% and totaled $18.4 million at September 30, 2004, compared to $19.9 million at December 31, 2003 primarily due to the net loss and dividends for the nine month period. Capital was also reduced by a decline in the market value of securities due to a smaller securities portfolio and a rise in market interest rates. The Company's capital ratio declined to 12.4% at September 30, 2004 from 18.6% at December 31, 2003 primarily as a result of growth as the Company continued to implement its strategic plan to leverage the Company's strong capital position.

Office of Thrift Supervision ("OTS") regulations require savings institutions to maintain certain minimum levels of regulatory capital. Additionally, the regulations establish a framework for the classification of savings institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a core (Tier 1) capital ratio of at least 5.0% (based on adjusted total assets); a core (Tier 1) risk-based capital ratio of a least 6.0%; and a total risk-based capital ratio of at least 10.0%. The Bank had capital ratios above the well-capitalized levels at September 30, 2004 and December 31, 2003.

On October 22, 2004, the Company announced that the Board had unanimously approved a 1-to-1000 reverse stock split of the Company's common stock as part of a "going private" transaction. At a special meeting of shareholders to be held in the coming weeks, shareholders will be asked to approve the reverse stock split by authorizing an amendment to the Company's Certificate of Incorporation. The record date will be announced at a later time. If the amendment receives shareholder approval, the Board intends to effect the reverse split immediately thereafter.

As a result of the reverse split, the Company expects to have fewer than 300 record holders of its common stock, permitting the Company to terminate the registration of its common stock with the SEC under the Exchange Act. The Company intends to apply for such termination as soon as practicable after effecting the split, and thereafter its common stock no longer will be quoted on Nasdaq.

The Board carefully considered this course of action and concluded that it was in the best interest of the Company and its shareholders. A public company generally enjoys investment liquidity for shareholders, easier access to capital, the option to use company stock as capital in an acquisition and an enhanced corporate image. While these benefits often justify the additional accounting, legal and other costs of being a public company, their availability depends upon active trading of the company's stock and a market price that provides some certainty in valuing the company. However, the Company's stock does not actively trade, and thus few, if any, of the benefits of being a public company are available to the Company. Recent legislation, most notably Sarbanes-Oxley and regulations adopted by the SEC and Nasdaq in furtherance of the purposes of Sarbanes-Oxley, have greatly increased the compliance costs of being a public company, both with respect to substantially higher legal and accounting costs and the significantly greater amount of time the Company's executives must devote to regulatory matters. As a private company, the Company will not have to implement the requirements of Sarbanes-Oxley, file reports with the SEC or comply with the corporate governance rules and onerous disclosure requirements of the SEC and Nasdaq. Thus, its legal, accounting and other costs will be much lower, and management can focus on long-term goals and values rather than on each quarter's financial results and the attendant market reaction. The savings realized by the Company will be invested in the business. The Board believes that shareholder value will be increased as management is allowed to focus its attention and resources on implementing the Company's business plan and long-term strategy.

CENTRAL FEDERAL CORPORATION
Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

General. The Company incurred a net loss for the quarter ended September 30, 2004 of $665,000 or $.33 per diluted share, compared to a net loss of $34,000 or $.02 per diluted share for the quarter ended September 30, 2003. In addition to expenses incurred as the Company continued its efforts to expand into the Fairlawn and Columbus markets, including operating costs associated with those offices, improvements in technology, and staffing costs associated with this expansion, the loss for the quarter ended September 30, 2004 was due to a $296,000 provision for loan losses necessary to support the significant growth in the commercial loan portfolio and $320,000 in expenses related to employee severance, post-retirement life insurance benefits associated with bank owned life insurance, one time charges recognized in connection with the servicing of loans and one time internal operating account write-offs.

Net interest income. Net interest income is a significant component of the Company's net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities.

Net interest income increased $240,000 or 29.5% during the quarter ended September 30, 2004 to $1.1 million, compared to $813,000 for the prior year quarter due to a $192,000 increase in interest income primarily resulting from growth in average interest-earning assets pursuant to the Company's expansion into business financial services in the Fairlawn and Columbus, Ohio markets partially offset by a decline in the overall yield on interest earning assets. A $48,000 decline in interest expense also contributed to the increase in net interest income and resulted primarily from a decline in the cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities.

Average interest earning assets increased $34.9 million or 37.3% and totaled $128.7 million during the third quarter of 2004 compared to $93.8 million during the third quarter of 2003 primarily due to loan growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. The yield on interest earning assets decline 107 basis points (bp) and totaled 5.03% during the third quarter of 2004 compared to 6.10% during the third quarter of 2003. Interest income increased $192,000 and totaled $1.6 million during the third quarter of 2004 primarily due to growth in loan and short term cash balances offset by a decline in interest income from securities as sales, maturities and repayments from the securities portfolio were reinvested in short term funds in anticipation of loan funding requirements. Interest income on loans increased $186,000 or 16.9% and totaled $1.3 million for the quarter ended September 30, 2004 compared to $1.1 million for the prior year quarter. Average loan balances increased $34.0 million, or 61.5% to $89.4 million during the third quarter of 2004 compared to $55.3 million during the third quarter of 2003 primarily due to commercial loan growth. The average yield on loans declined 220 bp to 5.76% during the third quarter of 2004 compared to 7.96% during the third quarter of 2003 reflecting the decline in the mortgage portfolio yields resulting from the sale of long-term fixed-rate mortgage originations during 2003 as customers refinanced in the low mortgage interest rate environment, from lower recognition of deferred loan fee income as mortgage prepayments slowed and from the lower yield of commercial loans compared to long-term fixed-rate mortgage loans. Interest income on overnight funds and other interest earning assets increased $73,000 and totaled $109,000 for the quarter ended September 30, 2004 compared to $36,000 during the prior year quarter. The average balance of these funds increased $5.8 million to $18.4 million during the quarter ended September 30, 2004 from $12.6 million during the prior year quarter due to management's decision to increase liquidity in anticipation of loan funding requirements. The average yield on these funds increased 123 bp to 2.37% during the quarter ended September 30, 2004 from 1.14% during the prior year quarter due to an increase in short term market interest rates. Interest income on securities declined $71,000 or 28.2% and totaled $181,000 for the quarter ended September 30, 2004 compared to $252,000 for the prior year quarter. Average securities balances decreased $5.0 million to $17.2 million during the third quarter of 2004 compared to $22.2 million during the third quarter of 2003, as cash flows from sales, maturities and repayments of securities were reinvested in short term funds in anticipation of loan funding requirements. The average yield on the securities

portfolio declined 39bp to 4.22% for the quarter ended September 30, 2004 from 4.61% during the prior year quarter.

The average cost of interest-bearing liabilities declined 99 bp or 34.1% and totaled 1.91% for the third quarter of 2004 compared to 2.90% for the third quarter of 2003. The decline in cost was primarily due to prepayment of long-term high fixed-rate FHLB advances in the fourth quarter of 2003 which were replaced with subordinated debentures at lower rates in December 2003 and fixed-rate advances at lower interest rates in 2004. Interest expense on deposits declined $96,000 or 21.1% and totaled $360,000 for the quarter ended September 30, 2004 compared to $456,000 for the prior year quarter. The average cost of deposits declined 74 bp to 1.75% during the quarter ended September 30, 2004 from 2.49% in the prior year quarter primarily as a result of growth in less expensive commercial deposits. The average balance of deposits increased $8.8 million and totaled $82.1 million during the quarter ended September 30, 2004 compared to $73.3 million during the prior year quarter primarily due to an increase in commercial deposit accounts. Interest expense on FHLB advances and other debt, including subordinated debentures increased $48,000 and totaled $204,000 during the quarter ended September 30, 2004 compared to $156,000 during the prior year quarter primarily as a result a $24.6 million increase in the average balance of debt outstanding, which totaled $35.8 million during the quarter ended September 30, 2004 compared to $11.2 million during the prior year quarter. The increase in interest expense relative to the increase in the balance of debt outstanding was partially offset by a 328 bp decline in the cost of FHLB advances and other borrowings, including subordinated debentures, which totaled 2.28% during the quarter ended September 30, 2004 compared to 5.56% during the prior year quarter primarily due to the prepayment of $11.2 million in fixed-rate FHLB advances in the fourth quarter of 2003 which had an average cost of 5.52%, replaced by FHLB advances and subordinated debentures at lower interest rates, as discussed above.

Net interest margin declined 21 bp to 3.27% for the quarter ended September 30, 2004 compared to 3.48% for the prior year quarter.

Provision 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. 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. Such evaluation, which includes a review of all loans for which full collectibility may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience, changes in the size and growth of the loan portfolio and other factors that warrant recognition in providing for an adequate loan loss allowance. Future additions to the allowance for loan losses will be dependent on these factors.

Based on management's review, the provision for loan losses totaled $296,000 for the quarter ended September 30, 2004 compared to no provision in the prior year quarter. The increase in the provision for loan losses during the current year quarter was necessary to support the significant growth in the commercial loan portfolio. At September 30, 2004, the allowance for loan losses represented .77% of total loans compared to .71% at December 31, 2003. Further, nonperforming loans, all of which are nonaccrual residential mortgage loans, totaled $165,000 at September 30, 2004 and $741,000 at December 31, 2003. At September 30, 2004 and December 31, 2003, nonaccrual loans represented .17% and 1.28%, respectively, of the net loan balance. The decline in nonperforming loans was principally due to the Company's acquisition of properties through the foreclosure process. Foreclosed assets increased $480,000 from $193,000 at December 31, 2003 to $673,000 at September 30, 2004. Assets acquired through foreclosure are initially recorded at fair value and, if fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. There was no such valuation allowance at September 30, 2004 or December 31, 2003. Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio at September 30, 2004; however, future additions to the allowance may be necessary based on changes in economic conditions and the factors discussed in the previous paragraph.

Noninterest income. Noninterest income decreased $178,000 to $56,000 in the third quarter of 2004, compared to $234,000 in the third quarter of 2003, primarily due to decreased gains on the sale of loans and losses on sales of securities in the current year quarter. Gains on sale of loans declined $120,000 and totaled $19,000 during the quarter ended September 30, 2004 compared to $139,000 during the quarter ended September 30, 2003 due to decreased mortgage originations and sales as mortgage interest rates increased and customer refinancing slowed during the current year. Management has implemented a program of selling loans servicing released, rather than retaining the servicing as was the Company's past practice. Management anticipates that current market conditions may continue to reduce customer refinancing activity and the Bank's volume of loan originations, sales and resultant gains. However, the Bank's reduced volume will likely be offset by increased mortgage loan origination and sales activity with the acquisition of Reserve.

Noninterest expense. Noninterest expense increased $704,000 and totaled $1.8 million in the third quarter of 2004, compared to $1.1 million in the third quarter of 2003 primarily due to increased staffing and operating expenses associated with improved technology and expansion to new locations in Fairlawn and Columbus, including data processing, occupancy, depreciation and other expenses. Noninterest expense during the third quarter of 2004 included $320,000 in expenses related to employee severance, post-retirement life insurance benefits associated with bank owned life insurance, one time charges recognized in connection with the servicing of loans and one time internal operating account write-offs.

Income taxes. The income tax benefit associated with the loss for the quarter ended September 30, 2004 totaled $335,000 and was $287,000 higher than $48,000 for the quarter ended September 30, 2003 due to an increase in the pre-tax loss in the current year quarter.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

General. The Company incurred a net loss for the nine months ended September 30, 2004 of $1.9 million or $.61 per diluted share, compared to a net loss of $1.5 million or $.62 per diluted share for the nine months ended September 30, 2003. The loss for the nine months ended September 30, 2004 was primarily due to noninterest expenses associated with expanding into business financial services: operating costs associated with offices in the Fairlawn and Columbus, Ohio markets in addition to its traditional market in Columbiana County, Ohio, improvements in technology, and staffing costs associated with this expansion, and additional loan loss reserves associated with commercial loan growth. The net loss for the nine months ended September 30, 2003 included $1.4 million in salary and employee benefits expenses related to restructuring of employee benefit plans and payments on agreements with former executives.

Net interest income. Net interest income increased $316,000 or 12.4% during the nine months ended September 30, 2004 and totaled $2.9 million, compared to $2.5 million for the prior year period primarily due to a decline in interest expense as a result of a decline in the cost of interest-bearing liabilities partially offset by an increase in the average balance of interest-bearing liabilities. Interest income declined .2%, or $8,000, due to a decline in the yield on interest-earning assets partially offset by an increase in the balance of interest-earning assets.

The average cost of interest-bearing liabilities declined 83 bp, or 31.1% and totaled 1.84% for the first nine months of 2004 compared to 2.67% for the prior year period. The decline in cost was primarily due to prepayment of long-term high fixed-rate FHLB advances in the fourth quarter of 2003 which were replaced with subordinated debentures at lower interest rates in December 2003 and fixed-rate advances at lower interest rates during 2004. Interest expense on deposits declined $222,000 or 18.3% and totaled $993,000 for the nine months ended September 30, 2004 compared to $1.2 million for the prior year period. The average cost of deposits declined 45 bp to 1.74% during the nine months ended September 30, 2004 from 2.19% in the prior year period primarily as a result of growth in less expensive commercial deposits. The average balance of deposits increased $2.2 million and totaled

$76.2 million during the nine months ended September 30, 2004 compared to $74.0 million during the prior year period primarily due to growth in commercial checking and money market accounts. Interest expense on FHLB advances and other debt, including subordinated debentures declined $102,000 or 19.8% and totaled $412,000 during the nine months ended September 30, 2004 compared to $514,000 during the prior year period primarily as a result of the prepayment of $11.2 million in fixed-rate FHLB advances in the fourth quarter of 2003 which had an average cost of 5.52% replaced by FHLB advances and subordinated debentures at lower interest rates, as discussed above. The average cost of FHLB advances and other borrowings, including subordinated debentures declined 340 bp and totaled 2.14% during the nine months ended September 30, 2004 compared to 5.54% during the prior year period. The average balance of FHLB advances and other borrowings, including subordinated debentures increased $13.3 million and totaled $25.7 million during the nine months ended September 30, 2004 compared to $12.4 million during the prior year period as FHLB advances were invested in short-term investments in anticipation of loan growth in the current year period.

The average yield on interest earnings assets declined 107 bp or 17.5% and totaled 5.04% for the first nine months of 2004 compared to 6.11% during the prior year period. The decline in yield was primarily the result of management's strategy to shorten security maturities and allow mortgage loan portfolio balances to decline to improve liquidity and the Company's interest rate risk position during 2003. Average interest earning assets increased $19.5 million or 20.9% and totaled $113.0 million during the nine months ended September 30, 2004 compared to $93.5 million during the prior year period primarily due to growth pursuant to the Company's strategy to expand into business financial services in the Fairlawn and Columbus, Ohio markets. Interest income declined $8,000 and totaled $4.3 million during the first nine months of 2004 primarily due to declines in the yield of the loan and securities portfolios partially offset by growth in commercial loan balances and cash and cash equivalents. Interest income on loans increased $41,000 or 1.2% and totaled $3.3 million for the nine months ended September 30, 2004. The average yield on loans declined 168 bp to 5.96% during the first nine months of 2004 compared to 7.64% during the prior year period reflecting the decline in the mortgage portfolio yields resulting from the sale of long-term fixed-rate mortgage originations during 2003 as customers refinanced in the low mortgage interest rate environment, lower recognition of deferred loan fees as mortgage prepayments slowed and lower yield of commercial loans compared to long-term fixed-rate mortgage loans. Average loan balances increased $17.1 million, or 29.7% to $74.4 million during the first nine months of 2004 compared to $57.3 million during the prior year period primarily due to commercial loan growth. Interest income on overnight funds and other interest earning assets increased $86,000 and totaled $180,000 for the nine months ended September 30, 2004 compared to $94,000 during the prior year period. The average balance of these funds increased $4.7 million to $13.2 million during the nine months ended September 30, 2004 from $8.5 million during the prior year quarter due to management's decision to increase liquidity in anticipation of loan funding requirements. The average yield on these funds increased 34 bp to 1.82% during the nine months ended September 30, 2004 from 1.48% during the prior year quarter due to an increase in short term market interest rates. Interest income on securities declined $142,000 or 18.2% and totaled $640,000 for the nine months ended September 30, 2004 compared to $782,000 for the prior year period. The average yield on securities declined 37 bp, or 8.4% to 4.01% for the nine months ended September 30, 2004 compared to 4.38% for the prior year period reflecting shorter maturities. The average balance of securities declined $2.4 million, or 9.9% to $21.8 million for the nine months ended September 30, 2004 compared to $24.2 million for the prior year period as cash flows from sales, maturities and repayments of securities were reinvested in short term funds in anticipation of loan funding requirements.

Net interest margin decreased 25 bp to 3.38% for the nine months ended September 30, 2004 compared to 3.63% for the quarter ended September 30, 2003.

Provision for loan losses. Based on management's review of the factors and market conditions discussed previously, the provision for loan losses totaled $366,000 for the nine months ended September 30, 2004 compared to $83,000 in the prior year period. The provision for loan losses reflects growth in the commercial loan portfolio, as discussed previously.

Noninterest income. Noninterest income decreased $334,000 to $282,000 during the first nine months of 2004, compared to $616,000 in the prior year period primarily due to decreased gains on the sale of loans. Gains on sale of loans declined $291,000 and totaled $63,000 during the nine months ended September 30, 2004 compared to $354,000 during the prior year period due to decreased mortgage originations and sales as mortgage interest rates increased and customer refinancing slowed during the current year period. See above for the expected impact of the acquisition of Reserve.

Noninterest expense. Noninterest expense increased $97,000 and totaled $4.7 million during the nine months ended September 30, 2004, compared to $4.6 million during the nine months ended September 30, 2003. Expense for the nine month period ended September 30, 2003 included $1.4 million in salaries and benefits expense related to restructuring of employee benefit plans and payments on agreements with former executives. Expense for the nine months ended September 30, 2004 included operating costs related to staffing, improved technology and expansion to new locations in Fairlawn and Columbus. Noninterest expense during the quarter ended September 30, 2004 also included approximately $320,000 in expenses related to employee severance, post-retirement life insurance benefits associated with bank owned life insurance, one time charges recognized in connection with the servicing of loans and one time internal operating account write-offs. Not including these items, noninterest expense for the quarter ended September 30, 2004 totaled $1.5 million, compared to $1.5 million for the quarter ended June 30, 2004 and $1.4 million for the quarter ended March 31, 2004.

Income taxes. The income tax benefit associated with the loss for the nine months ended September 30, 2004 totaled $683,000, compared to $397,000 for the nine months ended September 30, 2003, an increase of $286,000 due to an increase in the pre-tax loss for the current year period.

CRITICAL ACCOUNTING POLICIES

The Company follows financial accounting and reporting policies that are in accordance with generally accepted accounting principles in the United States of America and conform to general practices within the banking industry. These policies are presented in Note 1 to the audited consolidated financial statements in the Company's 2003 Annual Report to Shareholders incorporated by reference into the Company's 2003 Annual Report on Form 10-KSB. Some of these accounting policies are considered to be critical accounting policies. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by management could result in material changes in the Company's financial position or results of operations. The Company has identified accounting polices that are critical accounting policies and an understanding of these policies is necessary to understand the financial statements. A critical accounting policy relates to determining the adequacy of the allowance for loan losses. Additional information regarding this policy is included in the section captioned "Provision for Loan Losses". Management believes that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, liquidity is a measurement of the Company's ability to meet its cash needs. The Company's objective in liquidity management is to maintain the ability to meet loan commitments, purchase securities or to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. The Company's principal sources of funds are deposits, amortization and prepayments of loans, maturities, sales and principal receipts of securities, borrowings and operations. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on the Bank's overall asset/liability structure, market conditions, the activities

of competitors and the requirements of its own deposit and loan customers. Management believes that the Bank's liquidity is sufficient.

Liquidity management is both a daily and long-term responsibility of management. The Bank adjusts its investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on management's assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objective of its asset/liability management program. In addition to its liquid assets, the Company has other sources of liquidity available including, but not limited to access to advances from the FHLB and the ability to obtain deposits by offering above-market interest rates.

The Bank relies primarily on competitive rates, customer service and long-standing relationships with customers to retain deposits. Based on the Bank's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Bank.

At September 30, 2004, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $14.0 million, or 9.5% of adjusted total assets, which exceeds the required level of $7.4 million, or 5.0%; Tier 1 risk-based capital level of $14.0 million, or 13.8% of risk-weighted assets, which exceeds the required level of $6.1 million, or 6.0%; and risk-based capital of $14.8 million, or 14.6% of risk-weighted assets, which exceeds the required level of $10.2 million, or 10.0%.

CENTRAL FEDERAL CORPORATION
Item 3.
CONTROLS AND PROCEDURES

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 Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective to record, process, summarize and report, 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 Control Over Financial Reporting. The Company made no change in its internal control over financial reporting during its last fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

CENTRAL FEDERAL CORPORATION
PART II. - Other Information

Item 6. Exhibits

(a)	Exhibit Number	Exhibit
	3.1*	Certificate of Incorporation
	3.2*	Bylaws
	4.0*	Form of Common Stock Certificate
	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 F Officer

*Incorporated by reference into this document from the Exhibits filed with the Registration Statement on Form SB-2 and any amendments thereto, Registration No. 333-64089.

CENTRAL FEDERAL CORPORATION
SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL FEDERAL CORPORATION

Dated: November 12, 2004 By: /s/ David C. Vernon

David C. Vernon
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Dated: November 12, 2004 By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
Treasurer and Chief Financial Officer
(Principal Financial Officer)