CENTRAL FEDERAL CORP
Form ARS
March 12, 2004

Message to Shareholders

Dear Shareholders,

For more than 111 years the officers and employees of our Company have served the financial services needs of the communities of Wellsville and Calcutta, Ohio with distinction. In the past few years we have considered how best to take advantage of our strong capital base and our proud heritage. After careful planning we made the decision to make 2003 the year for positioning Central Federal Corporation for growth and increased profitability.

While our plan was adopted by your Board of Directors, it is important to recognize the contributions of Advisory Director Mr. Joseph M. Wells, Jr., who was most influential in the process of making the decisions necessary to move our Company forward. I would also like to thank retired Director Mr. Fred C. Jackson for his advice and counsel during this year of significant change for our Company.

Mr. William R. Williams, our former President and CEO, contributed significantly to the successful execution of our plan. Mr. Williams decided he wanted to retire on April 23, 2003. After 32 years of dedicated service to our Company, it was everyone's desire that he be granted his wish to enjoy a well-deserved retirement. However, we did not want to lose his counsel and insight, and he remains a valued consultant to the Company.

Our plan involved the execution of a number of action items, which have been discussed in various press releases and regulatory filings throughout the year. I urge you to review the Management Discussion and Analysis section of this annual report for additional details about the actions we have taken to position Central Federal Corporation for the future.

During 2003 we established offices in Fairlawn and Columbus, Ohio, raised additional capital, strengthened the management team, expanded the Board of Directors, increased our technological capabilities, remodeled our existing offices and began offering business financial services. In essence, we have created the new Central Federal.

We look forward to the opportunity to build on the accomplishments of 2003, which were made possible by the efforts of so many. Thank you for your support of Central Federal Corporation. We are continuing our efforts to grow and become even stronger.

David C. Vernon
Chairman, President and CEO

Management's Discussion and Analysis of Financial Condition and Results of Operations

SELECTED FINANCIAL AND OTHER DATA

The selected financial and other data of the Company set forth below is derived in part from, and should be read in conjunction with the Financial Statements of the Company and Notes thereto presented elsewhere in this report.

	AT DECEMBER 31,				
	2003	2002	2001	2000	1999
	(DOLLARS IN THOUSANDS)				
SELECTED FINANCIAL CONDITION DATA:					
Total assets	$107,011	$110,551	$120,927	$140,933	$142,4
Cash and cash equivalents	8,936	12,861	4,329	2,930	4,9
Securities available for sale	27,126	1,439	2,092	3,090	3,7
Securities held to maturity	-	17,822	23,343	35,796	54,7
Loans, net(1)	58,024	62,565	70,570	86,265	73,0
Allowance for loan losses	415	361	373	354	3
Nonperforming assets	934	783	985	489	1
Foreclosed assets	193	2	98	-	
Deposits	73,358	74,690	76,168	73,997	75,8
Federal Home Loan Bank advances	7,500	11,430	18,393	40,536	36,4
Loan payable	-	4,900	7,000	7,000	
Subordinated debentures	5,155	-	-	-	
Total shareholders' equity	19,856	17,583	18,160	17,833	29,2

	FOR THE YEAR ENDED DECEM			
	2003	2002	2001	
		(DOLLARS IN THOUSAN		
SUMMARY OF EARNINGS:				
Total interest income	$ 5,435	$ 7,067	$ 9,588	$
Total interest expense	3,521	3,462	5,299	
Net interest income	1,914	3,605	4,289	
Provision for loan losses	102	19	62	
Net interest income after provision for loan losses	1,812	3,586	4,227	
Noninterest income				
Net gain on sale of securities	42	16	15	
Other	888	599	169	
Total noninterest income	930	615	184	
Noninterest expense	6,104	3,214	3,501	
Income (loss) before income taxes	(3,362)	987	910	
Income tax expense (benefit)	(988)	313	312	
Net income (loss)	$(2,374)	$ 674	$ 598	$

(See footnotes on next page)

Management's Discussion and Analysis of Financial Condition and
Results of Operations

	AT OR FOR THE YEAR ENDE		
	2003	2002	2001
SELECTED FINANCIAL RATIOS AND OTHER DATA:			
PERFORMANCE RATIOS:(2)			
Return on average assets	(2.19%)	0.58%	0.45
Return on average equity	(12.34%)	3.76%	3.32
Average yield on interest-earnings assets(3)	5.62%	6.98%	7.71
Average rate paid on interest-bearing liabilities	2.63%	3.63%	4.65
Average interest rate spread(4)	2.99%	3.35%	3.06
Net interest margin, fully taxable equivalent(5) (11)	3.28%	3.56%	3.45
Interest-earning assets to interest-bearing liabilities	113.38%	106.09%	109.17
Efficiency ratio(6)	217.84%	76.45%	78.53
Noninterest expense to average assets	5.63%	2.79%	2.63
Dividend payout ratio	n/m	83.72%	81.58
CAPITAL RATIOS:(2)			
Equity to total assets at end of period	18.56%	15.90%	15.02
Average equity to average assets	17.76%	15.54%	13.54
Tangible capital ratio (9)	13.90%	18.90%	18.40
Core capital ratio (9)	13.90%	18.90%	18.40
Risk-based capital ratio (9)	21.60%	38.60%	35.70
ASSET QUALITY RATIOS:(2)			
Nonperforming loans to total loans (7)	1.28%	1.25%	1.25
Nonperforming assets to total assets(8)	0.87%	0.71%	0.81
Allowance for loan losses to total loans	0.71%	0.57%	0.53
Allowance for loan losses to nonperforming loans (7)	56.01%	46.22%	42.24
Net charge-offs to average loans	0.08%	0.05%	0.05
PER SHARE DATA:			
Basic earnings (loss) per share	$ (1.31)	$ 0.44	$ 0.38
Diluted earnings (loss) per share	(1.28)	0.43	0.38
Dividends declared (10)	0.36	0.36	0.31
Book value per share at year end	9.81	10.68	10.42

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(1) Loans, net represents gross loans receivable net of the allowance for loan losses, loans in process and deferred loan origination fees.

(2) Asset quality ratios and capital ratios are end-of-period ratios. All other ratios are based on average monthly balances during the indicated periods.

(3) Calculations of yield are presented on a taxable equivalent basis using the federal income tax rate of 34%.

(4) The average interest rate spread represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of average interest-bearing liabilities.

(5) The net interest margin represents net interest income as a percent of average interest-earning assets.

(6) The efficiency ratio equals noninterest expense divided by net interest income plus noninterest income (excluding gains or losses on securities transactions).

(7) Nonperforming loans consist of nonaccrual loans and other loans 90 days or more past due.

(8) Nonperforming assets consist of nonperforming loans, other repossessed assets and REO.

(9) Regulatory capital ratios of Central Federal Bank.

(10) The Company paid a return of capital dividend of $6.00 per share in 2000.

(11) Calculated excluding the $1.3 million penalty on prepayment of Federal Home Loan Bank advances in 2003.

n/m - not meaningful

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Central Federal Corporation (formerly known as Grand Central Financial Corp.) was formed as a thrift holding company as a result of the conversion of Central Federal Bank (formerly known as Central Federal Savings and Loan Association of Wellsville) from a federally chartered mutual savings and loan association to a federally chartered stock savings and loan association in December of 1998.

Management's discussion and analysis represents a review of the Company's consolidated financial condition and results of operations. This review should be read in conjunction with the consolidated financial statements and footnotes.

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.

FORWARD-LOOKING STATEMENTS

When used in this Annual Report, or in future filings with the Securities and Exchange 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.

MANAGEMENT STRATEGY

The Company is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves. The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, to originate single-family residential mortgage loans, short-term consumer loans and commercial loans. To a lesser extent, the Company also originates residential construction loans in its market area and loans secured by multi-family real estate.

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. The Company completed a private placement transaction which further strengthened its capital position and provided additional funds for growth. The management team was expanded and strengthened. Offices were opened in Fairlawn and Columbus, Ohio. The Company restructured its borrowings to reduce funding costs and restructured employee benefit plans to reduce future expenses. The data processing system was upgraded, and the Company's subsidiary Bank began originating commercial loans.

The Company's management team now includes Raymond E. Heh, former Chairman, President and CEO of Bank One Akron NA, who is President and Chief Operating Officer of Central Federal Bank. R. Parker MacDonell, former Senior Vice President of Bank One Columbus NA and third generation Ohio banker, is Regional President, Columbus. Edward L. Baumgardner, former President and CEO of Potters Bank and Potters Financial Company, is Regional President, Columbiana County. Eloise L. Mackus, Esq. joined the Company and Bank as Senior Vice President, General Counsel and Secretary. Therese A. Liutkus, CPA, former CFO of First Place Financial Corp., joined the Company and Bank as Chief Financial Officer. William R. Reed, former Senior Vice President and Senior Credit Officer of FirstMerit Bank, Akron, Ohio, is Senior Credit Officer. Three directors were added to the Boards of the Company and the Bank in 2003: Mark S. Allio, President and CEO, Rock Financial Services; William R. Downing, President, R.H. Downing, Inc.; and Jerry F. Whitmer, Partner, Brouse McDowell. William R. Williams, former President and CEO of Central Federal Corporation retired from the Board of Directors in 2003.

The Columbus office opened in November 2003 and construction of the new Fairlawn office is expected to be completed in March 2004. Currently, the Company rents office space in a Fairlawn office building, and is a one-third owner of a limited liability company that will own and manage the new office building.

The Company restructured its borrowings and eliminated costly long-term Federal Home Loan Bank advances and issued less costly subordinated debentures in exchange for the proceeds of a trust preferred security offering by a trust formed by the Company.

The proceeds from this offering are available to provide additional capital to Central Federal Bank to support growth. The Company terminated the Employee Stock Ownership Plan, froze pension benefits and instituted a 401(k) plan to reduce future expenses.

The Company allowed mortgage loan portfolio balances to decline as interest rates fell to 40-year lows and consumers continued to refinance during 2003. Current originations of long-term fixed-rate mortgages continue to be sold rather than retained in portfolio. The Company shortened the maturities of its securities portfolio in anticipation of growth in the commercial loan portfolio. To improve liquidity, all securities previously classified as held to maturity were reclassified as available for sale during 2003. Cash flows from the mortgage and securities portfolios will continue to be used to fund commercial loan growth.

Near-term profitability is expected to be negatively impacted by the occupancy costs of the new offices in Fairlawn and Columbus and salaries and employee benefits expense associated with additions made to the management team, as noted above. Profitability in the near term will also be negatively impacted by Management's decision to shorten security maturities and allow mortgage loan portfolio balances to decline. Although the decision to sell current mortgage originations rather than retain the loans in portfolio results in declining mortgage 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. Keeping security maturities short and selling long-term, fixed-rate mortgage loans gives the Company the liquidity necessary to reinvest in higher earning assets in a rising interest rate environment. Additionally, a rise in mortgage interest rates would likely cause consumer refinancing to slow, reducing the Bank's volume of loan originations, sales and resultant gains. Longer term, however, growth in commercial loans and deposits at the Fairlawn and Columbus offices are expected to result in improved financial performance.

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 $107.0 million at December 31, 2003, a decrease of $3.5 million, or 3.2% from $110.6 million at December 31, 2002. The decline was primarily due to repayment of $11.4 million in long-term, fixed-rate Federal Home Loan Bank advances and repayment of the remaining $4.9 million balance of a loan which had been obtained to fund payment of a return of capital dividend declared in 2000. These were partially offset by proceeds from $7.5 million in short-term Federal Home Loan Bank advances and $5.2 million in proceeds from the issuance of subordinated debentures.

Management's Discussion and Analysis of Financial Condition and Results of Operations

CASH AND CASH EQUIVALENTS. Cash and cash equivalents totaled $8.9 million at December 31, 2003, a decline of $4.0 million or 30.5% from $12.9 million at December 31, 2002. The decline was primarily due to the net use of cash in the transactions discussed above.

INTEREST-BEARING DEPOSITS IN OTHER FINANCIAL INSTITUTIONS. Interest-bearing deposits in other financial institutions totaled $1.6 million at December 31, 2003, a decrease of $5.6 million from $7.2 million at December 31, 2002 due to maturity of a $7.0 million certificate of deposit reflected in this balance at December 31, 2002 offset by current year deposits.

SECURITIES. Securities available for sale increased $25.7 million during the year and totaled $27.1 million at December 31, 2003, compared to $1.4 million at December 31, 2002. Securities held to maturity decreased $17.8 million during the same time frame. In 2003, the Company transferred all securities previously classified as "held to maturity," which had a carrying value of $10.5 million, to "available for sale". The unrealized gain on the securities transferred totaled $458,000 before tax. The Company's equity and accumulated other comprehensive income increased $302,000 after tax as a result of the transfer. Management anticipates securities purchased in the future will be classified as "available for sale". The $7.9 million net increase in securities reflected the investment of funds from mortgage repayments and prepayments as the mortgage portfolio declined during 2003.

LOANS. Loans, net totaled $58.0 million at December 31, 2003, a decrease of $4.6 million or 7.3% from $62.6 million at December 31, 2002 primarily as a result of Management's strategy to sell current mortgage production in the existing low rate environment rather than hold these long-term, low fixed-rate loans in portfolio. The decline in mortgage loan balances was partially offset by growth in commercial loans pursuant to Management's strategy to expand into business financial services. Residential mortgage loan balances totaled $36.1 million at December 31, 2003, a decline of $12.6 million or 25.9% from $48.6 million at December 31, 2002. Commercial loan balances totaled $9.2 million at December 31, 2003, an increase of $8.9 million from $261,000 at December 31, 2002.

DEPOSITS. Deposits decreased $1.3 million, or 1.8%, during the year and totaled $73.4 million at December 31, 2003, compared to $74.7 million at December 31, 2002. The decline was due to a $4.0 million decline in certificate accounts and a $1.2 million decline in money market accounts partially offset by $3.6 million growth in checking accounts, primarily commercial checking accounts, and $327,000 growth in savings accounts. The decline in certificate accounts was primarily due to customers seeking higher rates from competitors who may often price irrationally in this current low interest rate environment as a way to attract funding. The decline in certificate accounts could continue as Management focuses on attracting lower cost, core deposit accounts, such as checking and savings accounts.

FEDERAL HOME LOAN BANK ADVANCES. Federal Home Loan Bank advances totaled $7.5 million, a decline of $3.9 million during 2003, compared to $11.4 million at year-end 2002. During 2003, the Company elected to prepay fixed rate Federal

Home Loan Bank

borrowings totaling $11.2 million. These borrowings had an average cost of 5.52% and an average remaining maturity of 4.5 years. The repayment resulted in a charge of $1.3 million pre-tax, or $838,000 after tax as a result of a penalty associated with prepaying the loans. These fixed rate loans were arranged in 1998 and 1999 at much higher interest rates than current levels and were used to finance mortgage loans which have since prepaid.

LOAN PAYABLE. The $4.9 million loan payable balance at December 31, 2002 was repaid during 2003 and represented the remaining balance of a $7.0 million loan which had been obtained to fund a return of capital dividend declared in 2000. The loan was repaid with funds from the maturity of the certificate of deposit discussed above.

SUBORDINATED DEBENTURES. Subordinated debentures totaled $5.2 million at year-end and were issued by the Company in 2003 in exchange for the proceeds of a $5.0 million trust preferred securities offering issued by a trust formed by the Company. The proceeds of the offering are available to provide capital for Central Federal Bank to support growth.

SHAREHOLDERS' EQUITY. Total shareholders' equity increased $2.3 million or 12.9% during the year and totaled $19.9 million at December 31, 2003, compared to $17.6 million at December 31, 2002. The increase in shareholders' equity was primarily due to the completion of a private placement of 312,649 shares of the Company's common stock which generated an additional $3.1 million in capital. The Company's capital ratio increased to 18.6% at December 31, 2003 from 15.9% at December 31, 2002 primarily as a result of the capital generated by the private placement.

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 December 31, 2003 and 2002.

COMPARISON OF RESULTS OF OPERATIONS FOR 2003 AND 2002

GENERAL. The Company incurred a net loss in 2003 of $2.4 million or $1.28 per diluted share, compared to net income of $674,000 or $.43 per diluted share in 2002. The loss was primarily due to increased noninterest expense associated with Management's strategy to expand into business financial services by opening offices in the Fairlawn and Columbus, Ohio markets, costs associated with additions to the management team and staff, restructuring of employee benefit plans and payments on agreements with former executives. Additionally, a $1.3 million pre-tax prepayment penalty was incurred in the repayment of long-term, fixed-rate Federal Home Loan Bank advances.

Management's Discussion and Analysis of Financial Condition and
Results of Operations

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. The following tables titled "Average Balances, Interest Rates and Yields" and "Rate/Volume Analysis of Net Interest Income" provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

Net interest income decreased $1.7 million in 2003 to $1.9 million, compared to $3.6 million in 2002 primarily due to the $1.3 million prepayment penalty discussed above. Interest income decreased by $1.7 million or 23.1% to $5.4 million in 2003, compared to $7.1 million in 2002. The decline was due to a decrease in mortgage loan portfolio balances and investment in securities with short-term maturities, and resultant lower yields, in order to reduce interest rate risk and provide liquidity for growth in commercial loans, as discussed above. Interest income on loans decreased $1.1 million, or 20.0% in 2003 to $4.2 million, compared to $5.3 million in 2002, primarily due to continued high levels of mortgage refinancing and the sale of current fixed-rate loan production. Average loan balances decreased $9.4 million and average loan yields declined 54 basis points (bp) during 2003. Interest income from securities totaled $939,000 in 2003 and declined $579,000, or 38.1% from $1.5 million in 2002. The decrease in income was primarily due to prepayments received on mortgage-backed securities and reinvestment of proceeds in securities with short-term maturities and lower current market rates. The average balance of securities decreased $177,000 and the average yield on the portfolio declined 234 bp during 2003. The decline in the yield of the portfolio is representative of Management's strategic decision to shorten the maturity of the securities portfolio.

Interest expense, not including the $1.3 million prepayment penalty, decreased $1.2 million or 35.0% during 2003 to $2.3 million from $3.5 million in 2002. The decline in interest expense resulted from a decrease in interest rates paid on deposits as market interest rates declined, and from reduced interest expense on borrowed funds, primarily as a result of the repayment of the $4.9 million loan payable discussed above. The average balance of interest-bearing liabilities decreased $9.8 million and the average cost of interest-bearing liabilities declined 100 bp in 2003.

Net interest margin decreased 28 bp from 3.56% in 2002 to 3.28% in 2003.

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 inherent in its loan portfolio and the general economy. 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

Management's Discussion and Analysis of Financial Condition and

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 $102,000 in 2003, an increase of $83,000 from $19,000 in 2002. The increase primarily reflected the $8.9 million growth in commercial loans during 2003. At December 31, 2003, the allowance for loan losses represented .71% of total loans compared to .57% at December 31, 2002. Further, nonperforming loans, all of which are nonaccrual loans, were $741,000 at December 31, 2003 and $781,000 at December 31, 2002. At both December 31, 2003 and December 31, 2002, nonaccrual loans represented 1.3% of the net loan balance. More than 96% of the nonaccrual loan balances are secured by single-family homes in the Bank's primary market area. Management believes the allowance for loan losses is adequate to absorb probable incurred losses at December 31, 2003; 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 increased $315,000 to $930,000 in 2003, compared to $615,000 in 2002, primarily due to increased gains on sales of loans, service charges and earnings on bank owned life insurance. Gains on sales of loans totaled $429,000 during 2003, an increase of $116,000 or 37.1% from $313,000 during 2002 due to increased originations experienced during the current low market interest rate environment and Management's strategic decision to sell current production rather than retain these long-term, low fixed-rate loans in portfolio. Management anticipates loan sales will continue depending on market conditions. A rise in mortgage interest rates would likely cause consumer refinancing to slow, and likely reduce the Bank's volume of loan originations, sales and resultant gains. Service charges totaled $165,000 in 2003, an increase of $35,000 or 26.9% from $130,000 in 2002 primarily due to increased checking account fees. Earnings from bank owned life insurance increased $120,000 and totaled $188,000 in 2003, compared to $68,000 in 2002 primarily due to a full year of earnings in 2003 versus a partial year in 2002 when the insurance was originally purchased.

NONINTEREST EXPENSE. Noninterest expense increased $2.9 million or 89.9% and totaled $6.1 million in 2003, compared to $3.2 million in 2002. The increase in noninterest expense was primarily due to management, staff and benefits restructuring, expansion to new locations in the Fairlawn and Columbus markets and conversion of the data processing system in 2003. These expenses included higher salaries and employee benefits, higher occupancy expense, professional fees and data processing expenses. Salaries and employee benefits expense in 2003 included $638,000 associated with termination of the Company's ESOP and $917,000 related to a supplemental executive retirement agreement in connection with the retirement of William R. Williams as President and a severance agreement with a former executive.

INCOME TAXES. The income tax benefit associated with the net loss in 2003 totaled $988,000 compared to $313,000 income tax expense associated with net income in 2002.

COMPARISON OF RESULTS OF OPERATIONS FOR 2002 AND 2001

GENERAL. Net income totaled $674,000, or $.43 per diluted share in 2002 compared to $598,000, or $.38 per diluted share in 2001. The 12.7% increase in net income, or $76,000 was primarily due to an increase in non-interest income and a decline in non-interest expense, partially offset by a decline in net interest income.

NET INTEREST INCOME. Net interest income decreased $684,000 or 15.9%, from $4.3 million in 2001 to $3.6 million in 2002. The decrease was due to a $2.5 million, or 26.3% decrease in interest income, which was partially offset by a $1.8 million, or 34.7% decrease in interest expense. The decline in both interest income and interest expense was the result of declining interest rates in 2002.

Interest income on loans totaled $5.3 million in 2002, a decrease of $1.4 million or 21.3% from $6.7 million in 2001. Market interest rates fell to historic lows during 2002 resulting in high mortgage refinancing activity. Due to prepayment of higher rate portfolio mortgage loans and the sale of fixed-rate mortgage loan production, a smaller portfolio and lower yield resulted in lower interest income. The Company experienced similar declines in the auto loan portfolio in 2002 as many dealers offered 0% financing. Average loan balances decreased $15.8 million and average loan yields declined 23 bp during 2002. Interest income from securities totaled $1.5 million in 2002 and declined $1.0 million, or 38.8% from $2.5 million in 2001. The decrease in income was primarily due to prepayments received on mortgage-backed securities and reinvestment of proceeds at lower current market rates. The average balance of securities decreased $8.9 million and the average yield on the portfolio declined 121 bp during 2002.

Interest expense totaled $3.5 million in 2002 and decreased $1.8 million, or 34.7% from $5.3 million in 2001. The decrease in interest expense was primarily due to the declining interest rate environment in 2002. Additionally, the Company reduced its borrowings from the Federal Home Loan Bank with proceeds received from loan and security repayments. The average balance of interest-bearing liabilities decreased $18.5 million and the average cost of interest-bearing liabilities declined 102 bp in 2002.

Net interest margin increased 11 bp from 3.45% in 2001 to 3.56% in 2002. However, average interest-earning assets declined $23.1 million, or $4.6 million more than the $18.5 million decline in interest bearing liabilities and resulted in a decrease in net interest income despite the increase in margin.

The tables below titled "Average Balances, Interest Rates and Yields" and "Rate/volume Analysis of Net Interest Income" provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

PROVISION FOR LOAN LOSSES. The provision for loan losses is based on Management's regular review of the loan portfolio as described in detail previously. Based on this review, the provision for loan losses totaled $19,000 in 2002 and $62,000 and 2001. At

December 31, 2002, the allowance for loan losses represented 0.57% of total loans compared to 0.53% at December 31, 2001. Further, nonperforming loans, all of which are nonaccrual loans, were $781,000 at December 31, 2002 and $883,000 at December 31, 2001. Nonaccrual loans represented 1.3% of the net loan balance at both December 31, 2002 and 2001. More than 97% of the nonaccrual loan balances are secured by single-family homes in the Bank's primary market area.

NONINTEREST INCOME. Noninterest income increased $431,000 to $615,000 in 2002 from $184,000 in 2001 primarily due to increased gains on sales of loans and earnings on bank owned life insurance. Gains on sales of loans totaled $313,000 in 2002, an increase of $376,000 from a loss of $63,000 in 2001 due to Management's strategic decision in 2002 to sell current fixed rate production rather than retain these long-term, low fixed-rate loans in portfolio. The Company purchased bank owned life insurance in 2002, and earnings totaled $68,000.

NONINTEREST EXPENSE. Noninterest expense for the year ended December 31, 2002 decreased $287,000, or 8.2% and totaled $3.2 million in 2002 compared to $3.5 million in 2001. The decrease in noninterest expense was primarily due to salaries and benefits, data processing and other expenses which were not incurred in 2002 relative to a branch that was closed in 2001. There was also a charge of $154,000 related to the branch closing in 2001, which was not repeated in 2002. These declines in expenses were slightly offset by an increase in professional fees.

INCOME TAXES. The income tax expense in 2002 and 2001 were approximately the same, $313,000 and $312,000 despite the increase in income primarily due to nontaxable income from bank owned life insurance.

Management's Discussion and Analysis of Financial Condition and Results of Operations

AVERAGE BALANCES, INTEREST RATES AND YIELDS. The following table presents for the periods indicated the total dollar amount of fully taxable equivalent interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates.

	For the Years Ended December 31,				
	2003			2002	
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Intere Earne Paid
	(Dollars in thousands)				
Interest-earning assets:					
Securities (1) (2)	$ 23,675	$ 942	4.02%	$ 23,852	$ 1,51
Loans (3)	57,449	4,203	7.32%	66,847	5,25
Other earning assets	12,410	152	1.22%	7,105	13
FHLB stock	3,557	141	3.96%	3,406	15
Total interest-earning assets	97,091	5,438	5.62%	101,210	7,06
Noninterest-earning assets	11,268			14,055	
Total assets	$ 108,359			$ 115,265	

Interest-bearing liabilities:					
Deposits	$ 73,440	1,570	2.14%	$ 75,498	2,50
FHLB advances and other borrowings (4)	12,192	681	5.59%	19,902	96
Total interest-bearing liabilities	85,632	2,251	2.63%	95,400	3,46
Noninterest-bearing liabilities	3,484			1,958	
Total liabilities	89,116			97,358	
Equity	19,243			17,907	
Total liabilities and equity	$ 108,359			$ 115,265	
Net interest-earning assets	$ 11,459			$ 5,810	
Net interest income/interest rate spread		$ 3,187	2.99%		$ 3,60
Net interest margin			3.28%		
Average interest-earning assets to average interest-bearing liabilities	113.38%			106.09%	

	For the Years Ended December 31,		
	2001		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-earning assets:			
Securities (1) (2)	$ 32,757	$ 2,481	7.57%
Loans (3)	82,676	6,685	8.09%
Other earning assets	5,646	207	3.67%
FHLB stock	3,224	215	6.67%
Total interest-earning assets	124,303	9,588	7.71%
Noninterest-earning assets	8,928		
Total assets	$133,231		
Interest-bearing liabilities:			
Deposits	$ 75,640	3,236	4.28%
FHLB advances and other borrowings (4)	38,217	2,063	5.40%
Total interest-bearing liabilities	113,857	5,299	4.65%
Noninterest-bearing liabilities	1,336		
Total liabilities	115,193		
Equity	18,038		
Total liabilities and equity	$133,231		

Net interest-earning assets	$ 10,446		
Net interest income/interest rate spread		$ 4,289	3.06%
Net interest margin			3.45%
Average interest-earning assets to average interest-bearing liabilities	109.17%		

(1) Includes securities available for sale and held to maturity. Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields are stated on a fully taxable equivalent basis.

(3) Balance is net of deferred loan origination fees, undisbursed proceeds of construction loans and includes nonperforming loans.

(4) Interest paid does not include $1.3 million penalty on prepayment of FHLB advances in 2003.

Management's Discussion and Analysis of Financial Condition and Results of Operations

RATE/VOLUME ANALYSIS OF NET INTEREST INCOME. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase or decrease related to changes in balances and/or changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by the prior rate) and (ii) changes in rate (i.e., changes in rate multiplied by prior volume). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31, 2003 Compared to Year Ended December 31, 2002			Ye Decem Compared Decem
	Increase (decrease) due to			Increase (dec due to
	Rate	Volume	Net	Rate
	(Dollars in thousands)			
Interest-earning assets:				
Securities	$ (565)	$ (11)	$ (576)	$ (356)
Loans	(345)	(707)	(1,052)	(185)
Other earning assets	(62)	77	15	(115)
FHLB stock	(23)	7	(16)	(69)

Total interest-earning assets	(995)	(634)	(1,629)	(725)	
Interest-bearing liabilities:					
Deposits	(865)	(66)	(931)	(729)	
FHLB advances and other borrowings	134	(414)	(280)	(199)	
Total interest-bearing liabilities	(731)	(480)	(1,211)	(928)	
Net change in net interest income	$ (264)	$ (154)	$ (418)	$ 203	$

Management's Discussion and Analysis of Financial Condition and Results of Operations

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

GENERAL. The Company's most significant market risk, or risk of loss from adverse changes in market prices and rates, is interest rate risk. Asset/liability management is the measurement and analysis of the Company's exposure to changes in interest rates. Management actively monitors and manages its interest rate risk exposure. The objective of the Company's asset/liability management function is to maintain long-term profitability within the constraints of an optimum earning-asset mix, capital adequacy, liquidity and safety. The extent of the movement of interest rates is an uncertainty that could have a negative impact on earnings of the Company.

QUALITATIVE ASPECTS OF MARKET RISK. The principal objective of the Company's interest rate risk management function is to evaluate interest rate risk, determine the level of risk appropriate to the Company's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with Board of Directors' approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its earnings to changes in interest rates. The Bank's Board of Directors has established an Asset/Liability Committee, responsible for reviewing its asset/liability policies and interest rate risk position, which meets on a monthly basis and reports trends and interest rate risk position to the Board. The Company manages interest rate risk on a continuing basis through the use of a number of strategies as an ongoing part of its business plan.

QUANTITATIVE ASPECTS OF MARKET RISK. The Bank measures the effect of interest rate changes on its net portfolio value (NPV), which is the difference between the estimated market value of the Bank's assets and liabilities under different interest rate scenarios. Changes in NPV are measured using instantaneous changes in interest rates rather than linear changes in rates over a period of time. At December 31, 2003, the Bank's NPV ratios, using interest rate shocks ranging from a 300 bp rise in rates to a 100 bp decline in rates are shown in the following table. All values are within the acceptable range established by the Board of Directors.

Net Portfolio Value
(Bank only)

Basis Point Change in Rates	NPV Ratio
+300	16.86%
+200	17.65%
+100	18.27%
0	18.58%
-100	18.76%

In evaluating the Bank's exposure to interest rate risk, certain shortcomings inherent in the method of analysis presented in the foregoing table must be considered. For example, although certain assets and liabilities may have similar maturities or periods to which they reprice, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other

types may lag behind changes in market rates. Furthermore, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their debt may decrease when interest rates rise. Therefore, the actual effect of changing interest rates may differ materially from that presented in the foregoing table.

The Company's interest rate risk position has improved as a result of Management's strategic decisions to sell fixed rate mortgage loan originations rather than retain these long-term, low fixed-rate loans in portfolio, shorten securities maturities and grow commercial loans, which tend to have shorter maturities than residential mortgage loans and, in many cases, adjustable interest rates. Keeping security maturities short and selling long-term, low fixed-rate mortgage production provide the liquidity necessary to reinvest in higher earning assets in a rising interest rate environment.

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 2003, the Company improved liquidity by transferring all securities previously classified as "held to maturity" to "available for sale". In addition to its liquid assets, the Company has other sources of liquidity available including, but not limited to access to advances from the Federal Home Loan Bank 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 December 31, 2003, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $14.7 million, or 13.9% of adjusted total assets, which exceeds the required level of $5.3 million, or 5.0%; Tier 1 risk-based capital level of $14.7 million, or 21.0% of risk-weighted assets, which exceeds the required level of $4.2 million, or 6.0%; and risk-based capital of $15.1 million, or 21.6% of risk-weighted assets, which exceeds the required level of $7.0 million, or 10.0%.

IMPACT OF INFLATION

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which presently require the Company to measure financial position and results of operations primarily in terms of historical dollars. Changes in the relative value of money due to inflation are generally not considered. In Management's opinion, changes in interest rates affect the financial condition of the Company to a far greater degree than change in the inflation rate. While interest rates are generally influenced by changes in the inflation rate, they do not move concurrently. Rather, interest rate volatility is based on changes in the expected rate of inflation, as well as changes in monetary and fiscal policy. A financial institution's ability to be relatively unaffected by changes in interest rates is a good indicator of its ability to perform in a volatile economic environment. In an effort to protect itself from the effects of interest rate volatility, the Company reviews its interest rate risk position frequently, monitoring its exposure and taking necessary steps to minimize any detrimental effects on the Company's profitability.

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. 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 our 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 notes to the consolidated financial statements, Note 1 (Summary of Significant Accounting Policies), Note 3 (Loans), and the section above 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

MARKET PRICES AND DIVIDENDS DECLARED

The common stock of Central Federal Corporation trades on the Nasdaq SmallCap Market under the symbol "GCFC." As of December 31, 2003, there were 2,024,372 shares of common stock outstanding and 619 shareholders, excluding persons or entities holding stock in nominee or street name through various brokerage firms.

The following table shows the quarterly reported high and low trade prices of the common stock and cash dividends per share declared during 2003 and 2002.

	High	Low	Dividends
2003			
First quarter	$11.03	$ 9.28	$ 0.09
Second quarter	13.13	10.49	0.09
Third quarter	14.00	10.70	0.09
Fourth quarter	16.18	13.60	0.09
2002			
First quarter	$11.00	$ 9.90	$ 0.09
Second quarter	11.36	10.40	0.09
Third quarter	10.79	9.03	0.09
Fourth quarter	10.00	9.10	0.09

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Central Federal Corporation
Wellsville, Ohio

We have audited the accompanying consolidated balance sheets of Central Federal Corporation as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Federal Corporation as of December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC
Cleveland, Ohio
February 12, 2004

CENTRAL FEDERAL CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002
(Dollars in thousands except per share data)

	2003
ASSETS	
Cash and cash equivalents	$ 8,936
Interest-bearing deposits in other financial institutions	1,587
Securities available for sale	27,126
Securities held to maturity (fair value 2002 - $18,169)	-
Loans held for sale	106
Loans, net of allowance of $415 and $361	58,024
Federal Home Loan Bank stock	3,626
Loan servicing rights	221
Foreclosed assets, net	193
Premises and equipment, net	1,932
Bank owned life insurance	3,256
Accrued interest receivable	487
Other assets	1,517
	$ 107,011
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits	
Non-interest bearing	$ 2,457
Interest bearing	70,901

Total deposits	73,358
Federal Home Loan Bank advances	7,500
Loan payable	-
Advances by borrowers for taxes and insurance	207
Accrued interest payable and other liabilities	935
Subordinated debentures	5,155
Total liabilities	87,155
Shareholders' equity	
Preferred stock, 1,000,000 shares authorized; none issued	-
Common stock, $.01 par value; 6,000,000 shares authorized; 2003 - 2,280,020 shares issued, 2002 - 1,938,871 shares issued	23
Additional paid-in capital	11,845
Retained earnings	10,997
Accumulated other comprehensive income	201
Unearned Employee Stock Ownership Plan shares	-
Unearned stock based incentive plan shares	(357)
Treasury stock, at cost (2003 - 255,648 shares, 2002 - 292,950 shares)	(2,853)
Total shareholders' equity	19,856
	$ 107,011

See accompanying notes.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2003, 2002 and 2001
(Dollars in thousands except per share data)

	2003	2002
Interest and dividend income		
Loans, including fees	$ 4,203	$ 5,2
Taxable securities	934	1,5
Tax exempt securities	5	
Federal Home Loan Bank stock dividends	141	1
Federal funds sold and other	152	1
	5,435	7,0
Interest expense		
Deposits	1,570	2,5
Federal Home Loan Bank advances and other debt	1,940	9
Subordinated debentures	11	
	3,521	3,4
Net interest income	1,914	3,6

Provision for loan losses	102	
Net interest income after provision for loan losses	1,812	3,5
Noninterest income		
Service charges on deposit accounts	165	1
Net gain (loss) on sales of loans	429	3
Loan servicing fees	73	
Net gains on sales of securities	42	
Earnings on bank owned life insurance	188	
Other	33	
	930	6
Noninterest expense		
Salaries and employee benefits	3,549	1,7
Occupancy and equipment	224	
Data processing	246	1
Franchise taxes	301	2
Professional fees	673	2
Director fees	119	
Supplies	173	1
Loan expenses	91	1
Foreclosed assets, net	14	(3
Depreciation and amortization	350	1
Branch closing expense	-	
Other	364	2
	6,104	3,2
Income (loss) before income taxes	(3,362)	9
Income tax expense (benefit)	(988)	3
Net income (loss)	$ (2,374)	$ 6
Earnings (loss) per share:		
Basic	$ (1.31)	$ 0.
Diluted	(1.28)	0.

See accompanying notes.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2003, 2002 and 2001
(Dollars in thousands except per share data)

	2003	2002
Net income (loss)	$(2,374)	$ 674
Change in net unrealized gain (loss) on securities available for sale	(154)	34
Less: Reclassification adjustment for gains and losses later recognized in net income	42	16
Net unrealized gains and (losses)	(196)	18
Unrealized gain on securities transferred from held to maturity to available for sale	458	-
Tax effect	(89)	(6)
Other comprehensive income	173	12
Comprehensive income (loss)	$(2,201)	$ 686

See accompanying notes.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2003, 2002 and 2001
(Dollars in thousands except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Ac Com
Balance at January 1, 2001	$ 19	$ 8,322	$ 13,846	
Comprehensive income:				
Net income			598	
Other comprehensive income				
Total comprehensive income				
Commitment to release 18,864 employee stock ownership plan shares		(12)		
Release of 15,516 stock based incentive plan shares				
Purchase of 7,500 shares of treasury stock				
Cash dividends declared ($.31 per share)			(482)	
Balance at December 31, 2001	19	8,310	13,962	
Comprehensive income:				

Net income			674
Other comprehensive income			
Total comprehensive income			
Commitment to release 21,588 employee stock ownership plan shares		(4)	
Release of 15,516 stock based incentive plan shares			
Purchase of 96,410 shares of treasury stock			
Cash dividends declared ($.36 per share)			(551)
Balance at December 31, 2002	19	8,306	14,085
Comprehensive income:			
Net loss			(2,374)
Other comprehensive income			
Total comprehensive loss			
Issuance of common stock in private placement, net of offering costs of $64 (312,649 shares)	3	3,116	
Issuance of stock based incentive plan shares (28,500)	1	337	
Sale of employee stock ownership plan shares at plan termination (81,000 shares)		125	
Final allocation of employee stock ownership plan shares at plan termination (41,882 shares)		(39)	
Release of 16,002 stock based incentive plan shares			
Stock options exercised (37,302 shares)			(72)
Tax benefits from stock options exercised			47
Cash dividends declared ($.36 per share)			(689)
Balance at December 31, 2003	$ 23	$ 11,845	$ 10,997

	Unearned Stock Based Incentive Plan Shares	Treasury Stock	Shar
Balance at January 1, 2001	$ (365)	$ (2,151)	$
Comprehensive income:			
Net income			
Other comprehensive income			--
Total comprehensive income			
Commitment to release 18,864 employee stock ownership plan shares			
Release of 15,516 stock based incentive plan shares	95		
Purchase of 7,500 shares of treasury stock		(75)	
Cash dividends declared ($.31 per share)			
Balance at December 31, 2001	(270)	(2,226)	
Comprehensive income:			
Net income			
Other comprehensive income			--

Total comprehensive income			
Commitment to release 21,588 employee stock ownership plan shares			
Release of 15,516 stock based incentive plan shares	110		
Purchase of 96,410 shares of treasury stock		(1,044)	
Cash dividends declared ($.36 per share)			
	-------	--------	--
Balance at December 31, 2002	(160)	(3,270)	
Comprehensive income:			
Net loss			
Other comprehensive income			
			--
Total comprehensive loss			
Issuance of common stock in private placement, net of offering costs of $64 (312,649 shares)			
Issuance of stock based incentive plan shares (28,500)	(338)		
Sale of employee stock ownership plan shares at plan termination (81,000 shares)			
Final allocation of employee stock ownership plan shares at plan termination (41,882 shares)			
Release of 16,002 stock based incentive plan shares	141		
Stock options exercised (37,302 shares)		417	
Tax benefits from stock options exercised			
Cash dividends declared ($.36 per share)			
	-------	--------	--
Balance at December 31, 2003	$ (357)	$ (2,853)	$
	=======	========	==

See accompanying notes.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2003, 2002 and 2001
(Dollars in thousands except per share data)

	2003	2002
Cash flows from operating activities		
Net income (loss)	$ (2,374)	$ 674
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	102	19
Valuation loss on mortgage servicing rights	56	-
Depreciation and amortization	108	118
Net amortization of securities	63	(51
Net gain on sales of securities	(42)	(16
Loss on disposal of premises and equipment	50	-
Write-down of assets from branch closing	-	-
Federal Home Loan Bank stock dividend	(141)	(157
ESOP expense	638	222
SBIP expense	141	110

Earnings on bank owned life insurance	(188)	(68
Net change in:		
Loans held for sale	(106)	8,221
Accrued interest receivable	(84)	127
Other assets	(1,021)	(195
Accrued interest payable and other liabilities	(600)	865
Net cash from operating activities	(3,398)	9,869
Cash flows from investing activities		
Net change in interest bearing deposits	5,618	(199
Available-for-sale securities:		
Sales	3,078	386
Maturities, prepayments and calls	28,968	594
Purchases	(46,914)	(290
Held-to-maturity securities:		
Maturities, prepayments and calls	7,201	27,056
Purchases	-	(21,508
Loan originations and payments, net	4,434	8,010
Additions to premises and equipment	(1,326)	(127
Purchase of bank owned life insurance	-	(3,000
Cash received in repayment of ESOP loan	853	-
Net cash from investing activities	1,912	10,922
Cash flows from financing activities		
Net change in deposits	(1,332)	(1,478
Proceeds from Federal Home Loan Bank advances and other debt	7,500	-
Repayments on Federal Home Loan Bank advances and other debt	(16,330)	(9,063

See accompanying notes.

Net change in advances by borrowers for taxes and insurance	(241)	(123
Proceeds from subordinated debentures	5,155	-
Cash dividends paid	(655)	(551
Proceeds from private placement	3,119	-
Proceeds from exercise of stock options	345	-
Repurchase of common stock	-	(1,044
Net cash from financing activities	(2,439)	(12,259
Net change in cash and cash equivalents	(3,925)	8,532
Beginning cash and cash equivalents	12,861	4,329
Ending cash and cash equivalents	$ 8,936	$ 12,861
Supplemental cash flow information:		
Interest paid	$ 3,519	$ 3,495
Income taxes paid	106	160
Supplemental noncash disclosures:		

Transfer of securities from held to maturity to available for sale	$ 10,533	$ -
Transfers from loans to repossessed assets	193	-

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Central Federal Corporation and its wholly-owned subsidiary, Central Federal Bank, together referred to as "the Company". Intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through its offices in Wellsville, Fairlawn and Columbus, Ohio. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, Management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, loan servicing rights, and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash and deposits with other financial institutions under 90 days. Net cash flows are reported for loan and deposit transactions.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when Management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income. Other securities such as Federal Home Loan Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that Management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer and credit card loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when Management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. 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. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Rights: Servicing rights represent the allocated value of retained servicing rights on loans sold and the cost of purchased rights. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Foreclosed Assets: 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.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 7 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 25 years. Leasehold improvements are amortized over the lives of the respective leases.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance- sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45 are recorded at fair value.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 FASB Statement No. 123, Accounting for Stock-Based Compensation.

	2003	2002

(Dollar amounts in thousands except per share data)

Net income (loss) as reported	$ (2,374)	$ 674
Deduct: Stock-based compensation expense determined under fair value based method	175	121
Pro forma net income (loss)	$ (2,549)	$ 553
Basic earnings (loss) per share as reported	$ (1.31)	$ 0.44
Pro forma basic earnings (loss) per share	(1.40)	0.36
Diluted earnings (loss) per share as reported	$ (1.28)	$ 0.43
Pro forma diluted earnings (loss) per share	(1.37)	0.35

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

	2003
Risk-free interest rate	2.96%
Expected option life	5.9 years
Expected stock price volatility	44%
Dividend yield	3.13%

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Employee Stock Ownership Plan: The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest. See Note 9 - ESOP Plan for information regarding termination of this plan in 2003.

Earnings Per Common 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 includes the dilutive effect of stock based incentive plan shares and additional potential common shares issuable under stock options.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Adoption of New Accounting Standards: During 2003, the Company adopted FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, and FASB Interpretation 46, Consolidation of Variable Interest Entities. Adoption of the new standards did not materially affect the Company's operating results or financial condition.

Interpretation 45 requires recognizing the fair value of guarantees made and information about the maximum potential payments that might be required, as well as the collateral or other recourse obtainable. Interpretation 45 covers guarantees such as standby letters of credit, performance guarantees, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding.

Interpretation 46, as revised in December 2003, changes the accounting model for consolidation from one based on consideration of control through voting interests. Whether to consolidate an entity will now also consider whether that entity has sufficient equity at risk to enable it to operate without additional financial support, whether the equity owners in that entity lack the obligation to absorb expected losses or the right to receive residual returns of the entity, or whether voting rights in the entity are not proportional to the equity interest and substantially all the entity's activities are conducted for an investor with few voting rights. The Company owns a 100% interest in a trust formed by the Company in 2003. Under this new accounting guidance, the trust is not consolidated with the Company.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $300 and $148 was required to meet regulatory reserve and clearing requirements at year-end 2003 and 2002. These balances do not earn interest.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by Management to be aggregated in one reportable operating segment.

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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

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
2003			
Federal agency	$12,759	$ 8	$ (4)
State and municipal	1,375	5	-
Mortgage-backed	12,992	400	(105)
Total	$27,126	$ 413	$ (109)
2002			
Mortgage-backed	$ 1,439	$ 45	$ (1)
Total	$ 1,439	$ 45	$ (1)

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	
2002				
U.S. Government and federal agency	$ 2,527	$ 30	$ -	$
Corporate	1,996	-	-	
Mortgage-backed	13,299	322	(5)	
Total	$17,822	$ 352	$ (5)	$

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

Sales of available for sale securities were as follows:

	2003	200
Proceeds	$ 3,078	$
Gross gains	42	

The fair value of debt securities at year-end 2003 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

Due in one year or less
Due from one to five years
Due from five to ten years
Due after ten years
Mortgage-backed
Total

At year-end 2003 and 2002, 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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 2 - SECURITIES (Continued)

Securities with unrealized losses at year-end 2003 not recognized in income are as follows:

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss
Federal agency	$4,026	$ 4	$ -	$ -
Mortgage-backed	4,021	105	-	-
Total temporarily impaired	$8,047	$ 109	$ -	$ -

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.

To improve liquidity, in 2003 the Company transferred all securities previously classified as "held to maturity," which had a carrying value of $10,533, to "available for sale." The unrealized gain on the securities transferred totaled $458 before tax. The Company's equity and accumulated other comprehensive income increased $302 after tax as a result of the transfer.

NOTE 3 - LOANS

Loans at year-end were as follows:

	2003
Commercial	$ 4,116
Real estate:	
Residential	36,060
Commercial	5,040
Construction	610
Consumer	12,598
Subtotal	58,424
Less: Net deferred loan fees	15
Allowance for loan losses	(415)
Loans, net	$ 58,024

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

Activity in the allowance for loan losses was as follows:

	2003	20
Beginning balance	$ 361	$ 3
Provision for loan losses	102	
Loans charged-off	(50)	(
Recoveries	2	
Ending balance	$ 415	$ 3

Impaired loans are not material for any period presented.

Nonperforming loans were as follows:

	2003
Loans past due over 90 days still on accrual	$ -
Nonaccrual loans	741

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 4 - SECONDARY MORTGAGE MARKET ACTIVITIES

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans were $32,584 and $25,930 at year-end 2003 and 2002.

Custodial escrow balances maintained in connection with serviced loans were $100 and $26 at year-end 2003 and 2002.

Activity for capitalized mortgage servicing rights and the related valuation allowance follows:

	2003	2002
Servicing rights:		
Beginning of year	$ 200	$ 88
Additions	195	162
Amortized to expense	(118)	(50)
End of year	$ 277	$ 200

	2003	2002
Valuation allowance:		
Beginning of year	$ -	$ -
Additions expensed	56	-
End of Year	$ 56	$ -

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2003
Land	$ 117
Buildings	1,713
Furniture, fixtures and equipment	1,416
Leasehold improvements	10
	3,256
Less: Accumulated depreciation	(1,324)
	$ 1,932

Depreciation expense was $176, $118 and $101 for 2003, 2002 and 2001.

Rent expense was $14, $0, and $16 for 2003, 2002 and 2001. Rent commitments under noncancelable operating leases were as follows, before considering renewal options that generally are present.

2004	$ 60
2005	57
2006	57
2007	57
2008	57
Total	$ 288

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The Company is a one-third owner of a limited liability company that will own and manage the office building at 2923 Smith Road, Fairlawn, Ohio 44333 where the Company's headquarters and Central Federal Bank Fairlawn office will be located. The Company is currently in negotiations with the limited liability company to complete a lease agreement for this office space. As a result, rent expense for this office is not included above. The lease is expected to be accounted for as an operating lease.

The Company closed one branch during 2001 and took charges totaling $154. In connection with the branch closings the Company paid a cancellation fee for terminating the lease, wrote-off the remaining leasehold improvements and abandoned equipment and wrote down the remaining equipment to its estimated realizable value.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 6 - DEPOSITS

Time deposits of $100 or more were $4,285 and $3,520 at year-end 2003 and 2002.

Scheduled maturities of time deposits for the next five years were as follows.

2004	$ 22,702
2005	8,652
2006	4,122
2007	703
2008	514
	$ 36,693

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT

At year end, advances from the Federal Home Loan Bank were as follows.

	2003
Maturity January 2004 at 1.09% floating rate	$ 7,500
Maturities August 2005 thru March 2009, primarily fixed at rates from 5.07% to 6.96%, averaging 5.53%	-
Total	$ 7,500

In December 2003, the Company prepaid $11,195 in Federal Home Loan Bank advances, with an average cost of 5.52% and an average remaining maturity of 4.5 years. These fixed rate advances were arranged primarily in 1998 and 1999 and were used to finance mortgage loans which had prepaid. Accordingly, the loans represented an inappropriate and costly source of funding which was not necessary due to the liquidity position of the Company. The pre-tax prepayment penalty associated with this transaction was $1,270 and is included in interest expense on Federal Home Loan Bank advances and other debt in the 2003 Consolidated Statement of Operations.

The floating rate advances outstanding at year-end 2003 can be prepaid at any time with no penalty. The advances were collateralized by $34,795 and $47,004 of first mortgage loans under a blanket lien arrangement and $1,296 and $2,343 of securities at year-end 2003 and 2002.

Loan Payable: The Company had a 4.30% note payable with a financial institution with a balance of $4,900 at year-end 2002. The loan was repaid in full during 2003 and represented the remaining balance of a $7,000 loan which had been obtained to fund a return of capital dividend declared in 2000. The note was secured by stock the Company owns in the Bank and the Bank was required to maintain a deposit with the lending institution in the amount of the loan which earned interest at 1.90% below the loan rate.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER DEBT (Continued)

Trust Preferred Securities: 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 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.

PAYMENT INFORMATION:

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

2004	$ 7,500
	==========

NOTE 8 - OTHER BENEFIT PLANS

Multi-employer pension plan: The Company participates in a multiemployer contributory trustee pension plan. The retirement benefits to be provided by the plan were frozen as of June 30, 2003 and future employee participation in the plan was stopped. The plan was maintained for all eligible employees and the benefits were funded as accrued through the purchase of individual life insurance policies. The cost of funding was charged directly to operations. The unfunded liability at June 30, 2003 totaled $96. The Company's contribution for the plan year ending June 30, 2004 totaled $34. The Company made no contributions for 2002 or 2001.

401(k) Plan: In 2003, the Company instituted a 401(k) benefit plan. Employees 21 years of age and older are eligible to participate and are eligible for Company matching contributions after one year of service. The plan allows employee contributions up to 90% of their compensation, which may be matched by the Company on a discretionary basis. There was no match in 2003.

Stock Based Incentive Plans: Stock based incentive plans (SBIP) provide for stock option grants and restricted stock awards to directors, officers and employees. The 1999 Stock Based Incentive Plan was approved by shareholders on July 13, 1999. The plan provided for 193,887 shares for stock option grants and 77,554 shares for restricted stock awards. The 2003 Equity Compensation Plan was ratified by shareholders on April 23, 2003. The plan provided an aggregate of 100,000 shares for stock option grants and restricted stock awards, including up to a maximum of 30,000 shares for restricted stock awards. Both plans provide for options to be granted for terms of up to, but not exceeding ten years from the date of grant and cannot be granted at a price less than the fair market value of the common stock on the date of grant. Shares related to forfeited stock options and restricted stock awards become available for subsequent grant under the terms of the plans.

(Continued)

Compensation expense for restricted stock awards is based on the fair value of the stock at the date of grant and is recognized over the vesting period. Total restricted stock awards issuable under the plans are 107,554. 28,500 shares were issued in 2003 and no shares were issued in 2002. At December 31, 2003, 97,526 restricted stock awards were outstanding of which 57,007 had vested. Compensation expense was $141, $110 and $95 for 2003, 2002 and 2001. Unearned compensation is reported as a reduction of shareholders' equity until earned.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 9 - ESOP PLAN

Until the plan was terminated in 2003, employees participated in an Employee Stock Ownership Plan (ESOP). The ESOP borrowed from the Company to purchase 155,111 shares of stock at $10 per share. The Company made discretionary contributions to the ESOP, and paid dividends on unallocated shares to the ESOP, and the ESOP used funds it received to repay the loan. When loan payments were made, ESOP shares were allocated to participants based on relative compensation and expense was recorded. Dividends on allocated shares increased participant accounts.

The ESOP received $738 from a return of capital distribution paid by the Company in 2000 and purchased an additional 83,353 shares with the proceeds.

At the time of termination, there were 122,882 unearned ESOP shares of which 81,000 shares were sold and the proceeds were used to repay the outstanding balance of the loan incurred to fund the ESOP plan at inception. The remaining 41,882 shares were allocated to participants on a fully vested basis. The cost associated with terminating the ESOP totaled $638 and is included in salaries and employee benefits expense in the 2003 Consolidated Statement of Operations.

Contributions to the ESOP during 2003, 2002 and 2001 were $0, $159 and $152. Expense for 2003, 2002, and 2001 was $638, $222 and $190.

Shares held by the ESOP were as follows:

Allocated to participants	
Unearned	
Total ESOP shares	
Fair value of unearned shares	$

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 10 - INCOME TAXES

Income tax expense (benefit) was as follows.

	2003	2002	2001
Current federal	$ 95	$ 175	$ 276
Deferred federal	(1,083)	138	36
Total	$ (988)	$ 313	$ 312

Effective tax rates differ from federal statutory rate of 34% applied to income (loss) before income taxes due to the following.

	2003	2002
Federal statutory rate times financial statement income (loss)	$(1,143)	$ 336

Effect of:		
ESOP shares released at fair market value	207	1
Bank owned life insurance income	(64)	(23)
Other	12	(1)
	$ (988)	$ 313
Effective tax rate	(29.4%)	31.7%

Year-end deferred tax assets and liabilities were due to the following.

	2003
Deferred tax assets:	
Allowance for loan losses	$ 141
Deferred loan fees	160
Nonaccrual interest	36
Accrued stock awards	39
Net operating loss	1,325
Other	14
	1,715
Deferred tax liabilities:	
Depreciation	229
FHLB stock dividend	378
Mortgage servicing rights	75
Unrealized gain on securities available for sale	103
Other	-
	785
Net deferred tax asset (liability)	$ 930

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 10 - INCOME TAXES (Continued)

Federal income tax laws provided additional bad debt deductions through 1987, totaling $2,250. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total $765 at year-end 2003. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, this amount would be expensed.

No valuation allowance has been recorded against the deferred tax asset for net operating losses totaling $3,897 which expire in 2023 because the benefit is more likely than not to be realized.

NOTE 11 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates in 2003 were as follows.

Beginning balance	$ 607
New loans	-
Effect of changes in related parties	(599)
Repayments	(8)
Ending balance	$ -

Deposits from principal officers, directors, and their affiliates at year-end 2003 and 2002 were $384 and $300.

NOTE 12 - STOCK OPTIONS

Options to buy stock are granted to directors, officers and employees under the 1999 Stock Based Incentive Plan and 2003 Equity Compensation Plan, which provide for issue of up to 293,887 options. Exercise price is the market price at date of grant, so there is no compensation expense recognized in the income statement. The maximum option term is ten years, and options vest over three to five years.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 12 - STOCK OPTIONS (Continued)

A summary of the activity in the plan is as follows.

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	182,497	$ 9.23	182,497	$ 9.23	182,497	$ 9.23
Granted	77,758	11.79	-		-	
Exercised	(37,302)	9.23	-		-	
Forfeited	(13,232)	9.26	-		-	
Outstanding at end of year	209,721	$ 10.17	182,497	$ 9.23	182,497	$ 9.23
Options exercisable at year-end	101,285	$ 9.20	107,903	$ 9.22	71,402	$ 9.21
Weighted average fair value of						

options granted during year	$ 3.96	$ -	$ -

Options outstanding at year-end 2003 were as follows.

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$9.19 - $13.94	209,721	7.0 years	$ 10.17	101,285	$ 9.20

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 13 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2003 and 2002, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below at year-end.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

2003						
Total Capital to risk weighted assets	$ 15,093	21.6%	$ 5,597	8.0%	$ 6,997	10.0%
Tier 1 (Core) Capital to risk weighted assets	14,678	21.0%	2,799	4.0%	4,198	6.0%
Tier 1 (Core) Capital to adjusted assets	14,678	13.9%	4,217	4.0%	5,272	5.0%
Tangible Capital (to adjusted total assets)	14,678	13.9%	1,584	1.5%	N/A	N/A

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 13 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2002						
Total Capital to risk weighted assets	$ 21,163	38.6%	4,385	8.0%	$ 5,482	10.0
Tier 1 (Core) Capital to risk weighted assets	20,802	38.0%	2,193	4.0%	3,289	6.0
Tier 1 (Core) Capital to adjusted assets	20,802	18.9%	4,403	4.0%	5,504	5.0
Tangible Capital (to adjusted total assets)	20,802	18.9%	1,650	1.5%	N/A	N/A

The Qualified Thrift Lender test requires at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Bank must convert to a commercial bank charter. Management believes that this test is met.

When the Bank converted from a mutual to a stock institution, a "liquidation account" was established at $14,300, which was net worth reported in the conversion prospectus. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if the Bank liquidated. Dividends may not reduce shareholders' equity below the required liquidation account balance.

Office of Thrift Supervision (OTS) regulations limit capital distributions by savings associations. Generally, capital distributions are limited to undistributed net income for the current and prior two years. At year-end 2003, no amount is available to pay dividends to the Company without prior approval from the OTS.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 14 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year-end.

	2003	
	Fixed Rate	Variable Rate
Commitments to make loans	$ 486	$ 520
Unused lines of credit		4,257

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 5.25% to 7.00% and maturities ranging from 15 years to 30 years.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair values of financial instruments were as follows at year-end:

	2003	
	Carrying Amount	Fair Value

Financial assets		
Cash and cash equivalents	$ 8,936	$ 8,936
Interest-bearing deposits in other financial institutions	1,587	1,587
Securities available for sale	27,126	27,126
Securities held to maturity	-	-
Loans held for sale	106	107
Loans, net	58,024	59,341
Federal Home Loan Bank stock	3,626	3,626
Accrued interest receivable	487	487
Financial liabilities		
Deposits	(73,358)	(72,789)
Federal Home Loan Bank advances	(7,500)	(7,500)
Loan payable	-	-
Subordinated debentures	(5,155)	(5,155)
Accrued interest payable	(65)	(65)

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 16 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Central Federal Corporation follows.

CONDENSED BALANCE SHEETS
December 31

	2003
ASSETS	
Cash and cash equivalents	$ 9,238
Investment in banking subsidiary	15,099
Investment in and advances to other subsidiaries	155
Other assets	755
Total assets	$ 25,247

LIABILITIES AND EQUITY	
Debt	$ 5,155
Accrued expenses and other liabilities	236
Shareholders' equity	19,856
Total liabilities and shareholders' equity	$ 25,247

CONDENSED STATEMENTS OF OPERATIONS
Years ended December 31

	2003	
Interest income	$ 20	$
Other income	11	
Interest expense	59	
Other expense	338	
Loss before income tax and effect of subsidiaries' operations	(366)	
Income tax benefit	(125)	
Effect of subsidiaries' operations	(2,133)	
Net income (loss)	$ (2,374)	$

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 16 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31

	2003	
Cash flows from operating activities		
Net income (loss)	$ (2,374)	$
Adjustments:		
Effect of subsidiaries' operations	2,133	
Change in other assets and other liabilities	(236)	
Net cash from operating activities	(477)	
Cash flows from investing activities		

Cash received in repayment of ESOP loan	853	
Dividends received from bank	5,437	
Investments in subsidiaries	(155)	
Net cash from investing activities	6,135	
Cash flows from financing activities		
Proceeds of borrowings	5,155	
Repayments of borrowings	(4,900)	
Proceeds from stock issue	3,119	
Proceeds from exercise of stock options	345	
Purchase of treasury stock	-	
Dividends paid	(655)	
Dividends on unallocated ESOP shares	-	
Net cash from financing activities	3,064	
Net change in cash and cash equivalents	8,722	
Beginning cash and cash equivalents	516	
Ending cash and cash equivalents	$ 9,238	$

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands except per share data)

NOTE 17 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow.

	2003	20
Basic		
Net income (loss)	$ (2,374)	$
Weighted average common shares outstanding	1,815,210	1,53
Basic earnings (loss) per common share	$ (1.31)	$
Diluted		
Net income (loss)	$ (2,374)	$
Weighted average common shares outstanding for basic earnings (loss) per share	1,815,210	1,53
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares	45,349	3

Average shares and dilutive potential common shares	1,860,559	1,56
Diluted earnings (loss) per common share	$ (1.28)	$

All stock options for shares of common stock were considered in computing diluted earnings per common share for 2003. Stock options for 8,000 shares of common stock were not considered in computing diluted earnings per common share for 2002 and 2001 because they were antidilutive.

CENTRAL FEDERAL CORPORATION
AND CENTRAL FEDERAL BANK
BOARD OF DIRECTORS

David C. Vernon, Chairman
President & Chief Executive Officer
Central Federal Corporation

Chairman & Chief Executive Office
Central Federal Bank

Jeffrey W. Aldrich
Former President
Sterling China Co.

Mark S. Allio
President and CEO
Rock Financial Services

Thomas P. Ash
Superintendent
Mid-Ohio Educational Service Center

William R. Downing
President
R.H. Downing, Inc.

Gerry W. Grace
President
Grace Services, Inc.

Jerry F. Whitmer
Partner
Brouse McDowell

CENTRAL FEDERAL BANK
COLUMBUS DEVELOPMENT BOARD

Daniel P. Finkelman
Senior Vice President
Limited Brands, Inc.

Julia F. Johnson
Former Senior Vice President
Bank One Corp.

R. Parker MacDonell

President - Columbus Region
Central Federal Bank

John L. Mead
Owner
Little Turtle Golf Course

Louis A. Nobile, Jr.
Former President
Bank One Lima

Robert F. Parsons
Director of Development & Marketing
Communities in Schools, Columbus Inc.

Kim Rice Wilson
President
Six String Concerts

CENTRAL FEDERAL CORPORATION
OFFICERS

David C. Vernon
Chairman, President &
Chief Executive Officer

Eloise L. Mackus
Senior Vice President,
General Counsel & Secretary

Therese A. Liutkus, CPA
Chief Financial Officer

CENTRAL FEDERAL BANK
OFFICERS

David C. Vernon
Chairman & Chief Executive Officer

Raymond E. Heh
President & Chief Operating Officer

Edward L. Baumgardner
Regional President - Columbiana County

R. Parker MacDonell
Regional President - Columbus

Eloise L. Mackus
Senior Vice President, General Counsel & Secretary

Therese A. Liutkus, CPA
Chief Financial Officer

William R. Reed
Senior Credit Officer

Daniel F. Galeoti
Vice President

Charles O. Standley
Vice President

J. Brent Thomas
Vice President

Nancianne Dodgson
Assistant Vice President

Deborah L. Jacob
Assistant Vice President

John S. Lawell
Assistant Vice President

Daphne U. Moehring
Assistant Vice President

Diana M. Spencer
Assistant Vice President

Allan G. Dingey
Bank Security Officer

Stephen C. Burt
Commercial Banking Officer

Janna L. Cable
Loan Officer

Marjorie K. Minor
Loan Officer

Laura L. Martin
Assistant Secretary

CENTRAL FEDERAL BANK
OFFICE LOCATIONS
FAIRLAWN

2923 Smith Road
Akron, Ohio 44333
330-666-7979

David C. Vernon
Chairman & Chief Executive Officer

Raymond E. Heh
President & Chief Operating Officer

Eloise L. Mackus
Senior Vice President,
General Counsel & Secretary

Therese A. Liutkus, CPA
Chief Financial Officer

William R. Reed
Senior Credit Officer

Nancianne Dodgson

Assistant Vice President,
Office Manager

Danielle M. Boxler
Client Service Manager

Stephen C. Burt
Commercial Banking Officer

Krista J. Dobronos
Client Service Representative

Kenneth V. Hastings
Client Service Manager

Deborah L. Jacob
Assistant Vice President, Compliance & Audit

John S. Lawell
Assistant Vice President
Operations

Leigh Ann Martelon
Staff Accountant

Laura L. Martin
Assistant Secretary,
Executive Assistant

Richard J. Miller
Accounting Manager

Amy L. Tenney
Controller

Mary D. Williams
Accounting
Bank Secrecy Act Officer

WELLSVILLE

601 Main Street
Wellsville, Ohio 43968
330-532-1517

Edward L. Baumgardner
Regional President -
Columbiana County

Diana M. Spencer
Assistant Vice President,
Wellsville and Calcutta
Office Manager

Joan L. Boley
Loan Operations

Lisa A. Conkle
Mortgage Loan Processor

Amy Dalrymple
Teller

Allan G. Dingey
Client Service Manager
and Collections

Daniel F. Galeoti
Vice President,
Mortgage Lending

Sheryl A. Gibson
Teller

Michele R. Guildoo
Administrative Assistant,
Human Resources Coordinator

Carolyn J. LaScola
Teller

Kimberlee K. Little
Mortgage Loan Processor

Marjorie K. Minor
Loan Officer

Vicky M. Novacky
Teller

Susan D. Pickens
Deposit Operations

Becky Sant
Teller

Patricia A. Wilson
Teller

Teresa L. Wilson
Teller

CALCUTTA

49028 Foulks Drive
Calcutta, Ohio 43920
330-385-4323

Charles O. Standley
Vice President,
Consumer Lending

Janice L. Boso
Teller

Janna L. Cable
Loan officer

Margie C. Cline
Teller

Pamela S. Davis
Commercial Loan Operations and Consumer Lending

Marian C. Ferlaino
Client Service Supervisor

Mary C. Gilkinson
Teller

Rhonda R. McDole
Teller

Delores M. Mosti
Consumer Lending

COLUMBUS

4249 Easton Way, Suite 125
Columbus, Ohio 43219
614-334-7979

R. Parker MacDonell
Regional President -
Columbus

Daphne U. Moehring
Assistant Vice President,
Office Manager

Matthew Allyn
Client Service Manager

Arline R. Moore
Administrative Assistant

J. Brent Thomas
Vice President,
Business Banker

Corporate Data

Annual Report

A copy of the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission will be available March 30, 2003 without charge upon written request to:

Therese A. Liutkus - Chief Financial Officer
Central Federal Corporation
2923 Smith Road
Fairlawn, Ohio 44333
Phone: 330-666-7979 ext. 1012
Fax: 330-666-7959
Email: TerriLiutkus@centralfedbank.com

Annual Meeting

The Annual Meeting of Shareholders of Central Federal Corporation will be held at 10 a.m. on Tuesday, April 20, 2004 at the Central Federal Bank Fairlawn Office, 2923 Smith Road, Fairlawn, Ohio 44333.

Shareholder Services

The Registrar and Transfer Company serves as transfer agent for Central Federal Corporation shares. Communications regarding change of address, transfer of shares or lost certificates should be sent to:

The Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
Phone: 800-368-5948