CENTRAL FEDERAL CORP
Form 10-Q
November 09, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from __________ to______________

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

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

7000 North High St., Worthington, Ohio 43085

(Address of principal executive offices) (Zip Code)

(614) 334-7979

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]   No[X]

As of November 8, 2016, there were 16,002,910 shares of the registrant’s Common Stock outstanding.

CENTRAL FEDERAL CORPORATION

CENTRAL FEDERAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 52,302	$ 25,895
Interest-bearing deposits in other financial institutions	100	-
Securities available for sale	9,226	9,368
Loans held for sale, at fair value	2,466	889
Loans and leases, net of allowance of $6,893 and $6,620	329,376	297,064
FHLB stock	1,942	1,942
Foreclosed assets, net	-	1,636
Premises and equipment, net	3,494	3,609
Bank owned life insurance	4,896	4,797
Accrued interest receivable and other assets	4,592	6,093
Total assets	$ 408,394	$ 351,293
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 53,515	$ 42,926
Interest bearing	292,339	247,541
Total deposits	345,854	290,467
FHLB advances	15,500	14,500
Advances by borrowers for taxes and insurance	349	656
Accrued interest payable and other liabilities	2,415	2,203
Subordinated debentures	5,155	5,155
Total liabilities	369,273	312,981
Commitments and contingent liabilities	-	-
Stockholders' equity		
Common stock, $.01 par value;		
shares authorized: 50,000,000;		
shares issued: 16,135,917 in 2016 and 16,135,917 in 2015	161	161
Series B Preferred stock, $0.01 par value; 480,000 shares authorized;		
480,000 issued at September 30, 2016 and December 31, 2015	5	5
Additional paid-in capital	60,110	59,937
Accumulated deficit	(17,937)	(18,537)
Accumulated other comprehensive income (loss)	57	(9)

Treasury stock, at cost; 133,007 and 111,707 shares of common stock	(3,275)	(3,245)
Total stockholders' equity	39,121	38,312
Total liabilities and stockholders' equity	$ 408,394	$ 351,293

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest and dividend income				
Loans and leases, including fees	$ 3,658	$ 3,073	$ 10,439	$ 9,063
Securities	29	31	89	100
FHLB stock dividends	19	19	58	58
Federal funds sold and other	28	16	76	49
	3,734	3,139	10,662	9,270
Interest expense				
Deposits	683	585	1,899	1,628
FHLB advances and other debt	69	59	190	174
Subordinated debentures	46	41	136	122
	798	685	2,225	1,924
Net interest income	2,936	2,454	8,437	7,346
Provision for loan and lease losses	20	50	230	200
Net interest income after provision for loan losses	2,916	2,404	8,207	7,146
Noninterest income				
Service charges on deposit accounts	241	127	612	359
Net gains on sales of loans	46	64	97	357
Net loss on sales of securities	-	-	-	(12)
Earnings on bank owned life insurance	33	33	99	98
Other	30	100	136	341
	350	324	944	1,143
Noninterest expense				
Salaries and employee benefits	1,283	1,167	3,610	3,604
Occupancy and equipment	149	129	432	402
Data processing	285	269	827	786
Franchise and other taxes	89	79	265	240
Professional fees	320	230	944	676
Director fees	61	33	166	99
Postage, printing and supplies	35	41	130	171
Advertising and promotion	51	35	86	125
Telephone	32	30	90	86
Loan expenses	51	110	94	153
Foreclosed assets, net	-	18	49	92
Depreciation	52	53	159	157
FDIC premiums	34	106	168	313

Regulatory assessment	3	30	59	128
Other insurance	26	30	84	91
Other	41	38	142	118
	2,512	2,398	7,305	7,241
Income before incomes taxes	754	330	1,846	1,048
Income tax expense	249	-	603	-
Net income	505	330	1,243	1,048
Dividends on Series B preferred stock and accretion of discount	(214)	(214)	(643)	(643)
Net income attributable to common stockholders	$ 291	$ 116	$ 600	$ 405
Earnings per common share:				
Basic	$ 0.02	$ 0.01	$ 0.04	$ 0.03
Diluted	$ 0.02	$ 0.01	$ 0.04	$ 0.03

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	$ 505	$ 330	$ 1,243	$ 1,048
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period related to securities available for sale, net of tax of ($12) and $0 and $29 and $0	(23)	5	66	16
Less: reclassification adjustment for net losses realized during the period on investment securities available for sale, net of tax of $0 and $0	-	-	-	12
Other comprehensive income (loss), net of tax	(23)	5	66	28
Comprehensive income	$ 482	$ 335	$ 1,309	$ 1,076

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Common Stock	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2016	$ 161	$ 5	$ 59,937	$ (18,537)	$ (9)	$ (3,245)	$ 38,312
Net income				1,243			1,243
Other comprehensive income					66		66
Restricted stock expense, net of forfeitures			68				68
Stock option expense, net of forfeitures			24				24
Cash dividends declared on Series B preferred stock and accretion of discount			81	(643)			(562)
Purchase of 21,300 treasury shares						(30)	(30)
Balance at September 30, 2016	$ 161	$ 5	$ 60,110	$ (17,937)	$ 57	$ (3,275)	$ 39,121

	Common Stock	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	$ 159	$ 5	$ 59,696	$ (22,157)	$ 51	$ (3,245)	$ 34,509
Net income				1,048			1,048
Other comprehensive income					28		28
Stock option expense, net of forfeitures			102				102
			81	(643)			(562)

Cash dividends declared on Series B preferred stock and accretion of discount							
Balance at September 30, 2015	$ 159	$ 5	$ 59,879	$ (21,752)	$ 79	$ (3,245)	$ 35,125

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net Income	$ 1,243	$ 1,048
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan and lease losses	230	200
Depreciation	159	157
Amortization, net	(54)	36
Net loss on sales of securities	-	12
Originations of loans held for sale	(16,137)	(40,032)
Proceeds from sale of loans held for sale	14,657	44,054
Net gains on sales of loans	(97)	(357)
Gain on sale of foreclosed assets	(4)	-
Earnings on bank owned life insurance	(99)	(98)
Stock-based compensation expense	92	102
Change in deferred income taxes	(29)	-
Net change in:		
Accrued interest receivable and other assets	1,501	665
Accrued interest payable and other liabilities	212	(171)
Net cash from operating activities	1,674	5,616
Cash flows from investing activities		
Net increase in interest-bearing deposits in other financial institutions	(100)	-
Available-for-sale securities:		
Maturities, prepayments and calls	206	3,403
Purchases	-	(4,573)
Loan and lease originations and payments, net	(32,130)	(31,440)
Proceeds from the sale of loans	1,124	4,099
Additions to premises and equipment	(44)	(38)
Proceeds from the sale of foreclosed assets	200	-
Net cash used by investing activities	(30,744)	(28,549)
Cash flows from financing activities		
Net change in deposits	55,376	15,479
Proceeds from FHLB advances	37,600	2,500
Repayments on FHLB advances	(36,600)	(2,500)
Net change in advances by borrowers for taxes and insurance	(307)	(90)
Cash dividends paid on Series B preferred stock	(562)	(562)

Purchase of treasury shares	(30)	-
Net cash from financing activities	55,477	14,827
Net change in cash and cash equivalents	26,407	(8,106)
Beginning cash and cash equivalents	25,895	28,207
Ending cash and cash equivalents	$ 52,302	$ 20,101
Supplemental cash flow information:		
Interest paid	$ 2,205	$ 1,926
Supplemental noncash disclosures:		
Loans issued to finance the sale of repossessed assets	$ 1,440	$ -
Loans transferred from held for sale to portfolio	-	834
Loans transferred from portfolio to held for sale	-	1,561
Dividends payable on Series B preferred stock	187	187

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation (the "Holding Company") and its wholly-owned subsidiary, CFBank. The Holding Company and CFBank are sometimes collectively referred to herein as the "Company". Intercompany transactions and balances are eliminated in consolidation. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and in compliance with U.S. generally accepted accounting principles (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of the management of the Company, the accompanying unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company's financial condition and the results of operations for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The financial performance reported for the Company for the three and nine months ended September 30, 2016 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company's latest Annual Report to Stockholders and Annual Report on Form 10-K on file with the SEC. Reference is made to the accounting policies of the Company described in Note 1 to the Audited Consolidated Financial Statements contained in the Company's 2015 Annual Report to Stockholders that was filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2015 (referred to herein as the "2015 Audited Financial Statements"). The Company has consistently followed those policies in preparing this Form 10-Q.

Loans and Leases: Loans and leases 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, adjusted for purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses (ALLL). Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

The accrual of interest income on all classes of loans, except other consumer loans, is discontinued and the loan is placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Other consumer loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan for all classes of loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Commercial loans, multi-family residential real estate loans and commercial real estate loans placed on nonaccrual status are individually classified as impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income in the period in which the loan is placed in a nonaccrual status. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual status. Loans are considered for return to accrual status if and when all the principal and interest amounts that are contractually due are brought current, there is a current and well documented credit analysis, there is reasonable assurance of repayment of principal and interest, and the customer has demonstrated sustained, amortizing payment performance of at least six months.

Allowance for Loan and Lease Losses (ALLL): The ALLL 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. A loan is impaired when, based on current information and events, it is probable that CFBank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans within any loan class for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Factors considered by management in determining impairment for all loan classes include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

All loans within the commercial, multi-family residential and commercial real estate segments, regardless of size, and loans of all other classes with balances over $250 are individually evaluated for impairment when they are 90 days past due, or earlier than 90 days past due if information regarding the payment capacity of the borrower indicates that payment in full according to the loan terms is doubtful. 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, less costs to sell, if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and single-family residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

TDRs of all classes of loans are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. If the payment of the loan is dependent on the sale of the collateral, then costs to liquidate the collateral are included when determining the impairment. For TDRs that subsequently default, the amount of reserve is determined in accordance with the accounting policy for the ALLL.

Interest income on all classes of impaired loans that are on nonaccrual status is recognized in accordance with the accounting policy on nonaccrual loans. Cash receipts on all classes of impaired loans that are on nonaccrual status are generally applied to the principal balance outstanding. Interest income on all classes of impaired loans that are not on nonaccrual status is recognized on the accrual method. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured loan.

The general reserve component covers non-impaired loans of all classes and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by loan class and is based on the actual loss history experienced by CFBank over a three-year period. The general component is calculated based on CFBank's loan balances and actual three-year historical loss rates. For loans with little or no actual loss experience, industry estimates are used based on loan segment. This actual loss experience is supplemented with other economic and judgmental factors based on the risks present for each loan class. These economic and judgmental factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

CFBank's charge-off policy for commercial loans, single-family residential real estate loans, multi-family residential real estate loans, commercial real estate loans, construction loans and home equity lines of credit requires management to record a specific reserve or charge-off as soon as it is apparent that the borrower is troubled and there is, or likely will be, a collateral shortfall related to the estimated value of the collateral securing the loan. Other consumer loans are typically charged off no later than 90 days past due.

Joint Ventures: The Holding Company has contributed funds into a series of joint ventures (equity stake) for the purpose of allocating excess liquidity into higher earning assets while diversifying its revenue sources. The funding for the joint ventures is related to shorter term operating activities and is related to the development of single family real estate in the form of condominiums. Income is recognized based on a rate of return on the outstanding investment balance. As units are sold, the Holding Company receives an additional incentive payment, which is recognized as income.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Earnings Per Common Share: The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common stockholders for the period are allocated between common stockholders and participating securities (unvested share-based payment awards) according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Basic				
Net income	$ 505	$ 330	$ 1,243	$ 1,048
Dividends on Series B preferred stock and accretion of discount	(214)	(214)	(643)	(643)
Net income allocated to common stockholders	$ 291	$ 116	$ 600	$ 405
Weighted average common shares outstanding including unvested share-based payment awards	16,003,363	15,823,710	16,015,147	15,823,710
Less: Unvested share-based payment awards	-	-	-	-
Average shares	16,003,363	15,823,710	16,015,147	15,823,710
Basic earnings per common share	$ 0.02	$ 0.01	$ 0.04	$ 0.03
Diluted				
Net earnings allocated to common stockholders	$ 291	$ 116	$ 600	$ 405
Weighted average common shares outstanding for basic earnings per common share	16,003,363	15,823,710	16,015,147	15,823,710
Add: Dilutive effects of assumed exercises of stock options	17,660	8,396	13,191	9,441
Average shares and dilutive potential common shares	16,021,023	15,832,106	16,028,338	15,833,151
Diluted earnings per common share	$ 0.02	$ 0.01	$ 0.04	$ 0.03

The following securities exercisable for or convertible into common shares were anti-dilutive and not considered in computing diluted earnings (loss) per common share.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Stock options	347,746	417,529	375,379	432,178
Series B preferred stock	6,857,143	6,857,143	6,857,143	6,857,143
Stock warrants	1,152,125	1,152,125	1,152,125	1,152,125

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CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Adoption of New Accounting Standards:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and supersedes most current revenue recognition guidance for contracts to transfer goods or services or other nonfinancial assets. Lease contracts, insurance contracts, and most financial instruments are not included in the scope of this update. ASU No. 2014-09 provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Additional disclosures providing information about contracts with customers are required.

Guidance in ASU No. 2014-09 has been clarified by the following ASUs:

- ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
- ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing
- ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients

As extended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ASU No. 2014-09 and the clarifying ASUs are effective for public companies for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Transitional guidance is included in the updates. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Since the Company's products are substantially financial in nature, adoption of ASU No. 2014-09 and the clarifying ASUs are not expected to have a material impact on the Company's results of operations or financial position.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (June 2014). This Update defines the accounting treatment for share-based payments and "resolves the diverse accounting treatment of those awards in practice." The new requirement mandates that "a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition." Compensation cost will now be recognized in the period in which it becomes likely that the performance target will be met. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Adoption of ASU 2014-12 on January 1, 2016 did not have an impact on the Company's accounting and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 amends the guidance in U.S. GAAP on the accounting for equity investments, financial liabilities under the fair value option and the presentations and disclosure requirements of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option. The Company will adopt the methodologies prescribed by the ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

On February 25, 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), the long-awaited new standard on lease accounting. Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP. Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities. For public business entities, the final leases standard will be effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early application is permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

The FASB has issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted and the effect of the change on the financial statement line items, i.e., debt issuance cost asset and the debt liability. The Company has adopted the methodologies prescribed by this ASU. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU No. 2016-07 affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this update eliminate the requirement that, when an investment qualifies for use of the equity method, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. ASU No. 2016-07 requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in

ASU No. 2016-07 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. Adoption of ASU No. 2016-07 is not expected to have a material impact on the Company's results of operations or financial position.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. The new guidance involves several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under ASU No. 2016-09, any excess tax benefits or tax deficiencies should be recognized as income tax expense or benefit in the income statement. Excess tax benefits are to be classified as an operating activity in the statement of cash flows. In accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, as required under current guidance, or account for forfeitures when they occur. For an award to qualify for equity classification, an entity cannot partially settle the award in excess of the employer's maximum statutory withholding requirements. Such cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity in the statement of cash flows. The amendments in ASU No. 2016-09 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Adoption of ASU No. 2016-07 is not expected to have a material impact on the Company's results of operations or financial position.

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In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 was issued in June 2016 and, once effective, will significantly change current guidance for recognizing impairment of financial instruments. Current guidance requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. ASU No. 2016-13 replaces the incurred loss impairment methodology with a new methodology that reflects expected credit losses over the lives of the loans and requires consideration of a broader range of information to inform credit loss estimates. The ASU requires an organization to estimate all expected credit losses for financial assets measured at amortized cost, including loans and held-to-maturity debt securities, based on historical experience, current conditions, and reasonable and supportable forecasts. Additional disclosures are required. ASU No. 2016-13 also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. Under the new guidance, entities will determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. Any credit loss will be recognized as an allowance for credit losses on available-for-sale debt securities rather than as a direct reduction of the amortized cost basis of the investment, as is currently required. As a result, entities will recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings rather than as interest income over time, as currently required. ASU No. 2016-13 eliminates the current accounting model for purchased credit impaired loans and debt securities. Instead, purchased financial assets with credit deterioration will be recorded gross of estimated credit losses as of the date of acquisition and the estimated credit losses amounts will be added to the allowance for credit losses. Thereafter, entities will account for additional impairment of such purchased assets using the models listed above. ASU No. 2016-13 will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company’s management is currently evaluating the financial statement impact of adopting the new guidance.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Reclassifications

Reclassification of certain amounts in the 2015 consolidated financial statements have been made to conform to the 2016 presentation.

NOTE 2- REGULATORY CONSIDERATIONS

Regulatory Order Considerations:

On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the "Holding Company Order" and the "CFBank Order", respectively, and collectively, the "Orders") by the Office of Thrift Supervision (the "OTS"), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Federal Reserve Board (the "FRB") replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (the "OCC") replaced the OTS as the primary regulator of CFBank. The Orders imposed significant directives applicable to the Holding Company and CFBank, including requirements that we maintain heightened capital levels, reduce the level of our classified and criticized assets, achieve growth and operating metrics in line with an approved business plan, and comply with restrictions on brokered deposits and on certain types of lending and prohibitions on dividends and repurchases of our capital stock.

Effective as of January 23, 2014, the OCC released and terminated the CFBank Order based upon the improved capital position of CFBank, among other factors. Notwithstanding the release of the CFBank Order, CFBank was required to continue to maintain a minimum Tier 1 Leverage Capital Ratio of 8% and a Total Risk-based Capital to Risk-Weighted Assets ratio of 12% until December 23, 2015. In addition, in connection with the release and termination of the CFBank Order, CFBank made certain commitments to the OCC to continue to adhere to certain prudent practices, including, without limitation, maintaining a written program to continue to improve CFBank's credit underwriting and administrative process; take actions to protect its interest in criticized assets as identified by CFBank, the OCC examiners or its external loan review process; implement its written program to effectively identify, monitor,

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control and continue to reduce the level of credit risk to CFBank; review and monitor progress against such plan with the Board of Directors; and continue CFBank's aggressive workout efforts and individualized workout plans on all criticized assets greater than $250,000. The foregoing commitments remained in place until December 23, 2015.

On May 15, 2014, the FRB announced the termination of the Holding Company Order, effective as of May 9, 2014. Notwithstanding the termination of the Holding Company Order, the Holding Company was required to continue to adhere to certain requirements and restrictions based on commitments made to the FRB in connection with the termination of the Holding Company Order. These commitments required the Holding Company, among other things, to continue to implement certain actions in accordance with the capital plan previously submitted to the FRB; not declare or pay dividends on its stock, purchase or redeem its stock, or accept dividends or other capital distributions from CFBank without the prior written approval of the FRB; not incur, increase or guarantee any debt without the prior written consent of the FRB; and provide prior written notice to the FRB with respect to certain changes in directors and senior executive officers. The foregoing commitments remained in place until January 8, 2016.

The significant directives contained in the Orders and the commitments made by CFBank and the Holding Company in connection with the release and termination of the Orders provided challenges for the operation of our business and our ability to effectively compete in our markets over the past several years. In addition, the Orders and our subsequent commitments to the regulators required that we obtain approval from our regulators for any deviations from our business plan, which limited our flexibility to make changes to the scope of our business activities. We also incurred significant additional regulatory compliance expense in connection with the Orders and our regulatory commitments. Although we are no longer subject to the Orders or the regulatory commitments made following the release of the Orders, we remain subject to extensive supervision and regulation by our regulators and it is possible that regulatory compliance expenses could continue to have a material adverse impact on us in the future.

Dividend Restrictions:

The ability of the Holding Company to pay dividends on its common stock and Series B Preferred Stock is generally dependent upon the receipt of dividends and other distributions from CFBank. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. The Holding Company also is subject to various legal and regulatory policies and guidelines impacting the Holding Company's ability to pay dividends on its stock. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities. Finally, so long as the Company's Series B Preferred Stock remains outstanding, the Holding Company will be prohibited from paying dividends (other than dividends payable solely in shares) on the Company's common stock, for the then-current dividend period, unless full dividends on the Series B Preferred Stock have been paid or set aside for payment. Dividends on the Series B Preferred Stock are non-cumulative, which means that if for any reason we do not declare cash dividends on the Series B Preferred Stock for a quarterly dividend period we will have no obligation to pay any dividends for that period (i.e., the dividends will not accrue or cumulate), whether or not we declare dividends on the Series B Preferred Stock for any subsequent dividend period.

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NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at September 30, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016 (unaudited)				
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	$ 8,548	$ 61	$ -	$ 8,609
Mortgage-backed securities - residential	375	17	-	392
Collateralized mortgage obligations	217	8	-	225
Total	$ 9,140	$ 86	$ -	$ 9,226

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	$ 8,575	$ 4	$ 43	$ 8,536
Mortgage-backed securities - residential	463	18	-	481
Collateralized mortgage obligations	339	12	-	351
Total	$ 9,377	$ 34	$ 43	$ 9,368

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at September 30, 2016 or September 30, 2015.

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There were no sales of securities for the three and nine months ended September 30, 2016 or September 30, 2015; however, there was an early redemption of a municipal security during the first quarter of 2015 which is reflected in net gain (loss) on sales of securities.

The amortized cost and fair value of debt securities at September 30, 2016 and December 31, 2015 are shown in the table below by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	September 30, 2016 (unaudited)		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,014	$ 3,015	$ 1,002	$ 1,000
Due from one to five years	5,534	5,594	7,573	7,536
Mortgage-backed securities - residential	375	392	463	481
Collateralized mortgage obligations	217	225	339	351
Total	$ 9,140	$ 9,226	$ 9,377	$ 9,368

Fair value of securities pledged was as follows:

	September 30, 2016 (unaudited)	December 31, 2015
Pledged as collateral for:		
FHLB advances	$ 3,390	$ 3,530
Public deposits	2,053	2,055
Interest-rate swaps	214	261
Total	$ 5,657	$ 5,846

At September 30, 2016 and December 31, 2015, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, in an amount greater than 10% of stockholders' equity.

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The following table summarizes securities with unrealized losses at September 30, 2016 and December 31, 2015 aggregated by major security type and length of time in a continuous unrealized loss position.

September 30, 2016 (unaudited)	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury (1)	$ 1,512	$ -	$ -	$ -	$ 1,512	$ -
Mortgage-backed securities - residential	-	-	-	-	-	-
Collateralized mortgage obligations	-	-	-	-	-	-
Total temporarily impaired	$ 1,512	$ -	$ -	$ -	$ 1,512	$ -

(1) Securities with an unrealized loss were less than $1 resulting in rounding to zero

December 31, 2015	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury	$ 6,541	$ 43	$ -	$ -	$ 6,541	$ 43
Mortgage-backed securities - residential	-					